M. Pearson
CLERK TO THE AUTHORITY

To: **The Chair and Members of the Resources Committee (see below)**

SERVICE HEADQUARTERS
THE KNOWLE
CLYST ST GEORGE
EXETER
DEVON
EX3 0NW

Your ref :		Date :	25 January 2013	Telephone :	01392 872200
Our ref :		Please ask for :	Steve Yates	Fax :	01392 872300
Website :	www.dsfire.gov.uk	Email :	syates@dsfire.gov.uk	Direct Telephone :	01392 872329

RESOURCES COMMITTEE
(Budget Meeting)
(Devon and Somerset Fire and Rescue Authority)

Monday 4 February 2013

The budget meeting of the Resources Committee will be held on the above date, **commencing at 10.00 hours in Committee Room B in Somerset House, Service Headquarters** to consider the following matters.

M. Pearson
Clerk to the Authority

A G E N D A

PLEASE REFER TO THE NOTES AT THE END OF THE AGENDA LISTING SHEETS

1. **Apologies**

2. **Minutes** of the meeting held on 19 October 2012 attached (Page 1).

3. **Items Requiring Urgent Attention**

Items which, in the opinion of the Chair, should be considered at the meeting as matters of urgency.

PART 1 – OPEN COMMITTEE

4. **Financial Performance Report 2012/13: Quarter 3**

Report of the Treasurer to the Authority (RC/13/1) attached (page 4)

5. **Treasury Management Performance 2012-13 - Quarter 3**

Report of the Treasurer to the Authority (RC/13/2) attached (page 18).

6. **Draft Capital Programme 2013-14 To 2015-16**

Joint report of the Director of Service Support and the Treasurer to the Authority (RC/13/03) attached (page 24)

7. **2013-14 Revenue Budget and Council Tax Level**

Joint report of the Treasurer to the Authority and the Chief Fire Officer (RC/13/4) attached (page 36).

PART 2 – ITEMS WHICH MAY BE TAKEN IN THE ABSENCE OF THE PRESS AND PUBLIC

Nil

MEMBERS ARE REQUESTED TO SIGN THE ATTENDANCE REGISTER

Membership:-

Councillors Gordon(Chair), Yeomans (Vice Chair), Mrs. Bakewell MBE, Horsfall, Hughes OBE, D Smith and Woodman

NOTES	
1.	**<u>Disclosable Pecuniary Interests (Authority Members only)</u>** If you have any disclosable pecuniary interests (as defined by Regulations) in any item(s) to be considered at this meeting then, unless you have previously obtained a dispensation from the Authority's Monitoring Officer, you must: (a) disclose any such interest at the time of commencement of consideration of the item in which you have the interest or, if later, as soon as it becomes apparent to you that you have such an interest; (b) leave the meeting room during consideration of the item in which you have such an interest, taking no part in any discussion or decision thereon; and (c) not seek to influence improperly any decision on the matter in which you have such an interest. If the interest is sensitive (as agreed with the Monitoring Officer), you need not disclose the nature of the interest but merely that you have a disclosable pecuniary interest of a sensitive nature. You must still follow (b) and (c) above.
2.	**<u>Part 2 Reports</u>** Members are reminded that any Part 2 reports as circulated with the agenda for this meeting contain exempt information and should therefore be treated accordingly. They should not be disclosed or passed on to any other person(s). Members are also reminded of the need to dispose of such reports carefully and are therefore invited to return them to the Committee Secretary at the conclusion of the meeting for disposal.
3.	**<u>Substitute Members (Committee Meetings only)</u>** Members are reminded that, in accordance with Standing Order 35, the Clerk (or his representative) must be advised of any substitution prior to the start of the meeting. Members are also reminded that substitutions are not permitted for full Authority meetings.
4.	**<u>Access to Information</u>** Any person wishing to inspect any minutes, reports or lists of background papers relating to any item on this agenda should contact the person listed in the "Please ask for" section at the top of this agenda.

RESOURCES COMMITTEE
(Devon and Somerset Fire and Rescue Authority)

19 October 2012

Present:-

Councillors Woodman (Vice Chair), Bakewell MBE, Gribble (vice Hughes OBE), Horsfall, Mills (vice Yeomans) and D Smith.

Apologies:-

Councillor Gordon (Chair), B Hughes OBE and Yeomans.

NB. In view of the apology for absence received from Councillor Gordon, Councillor Woodman took the Chair for this meeting.

*RC/9. Minutes

RESOLVED that the Minutes of the meeting held on 20 July 2012 be signed as a correct record.

*RC/10. Declarations of Interest

Members of the Committee were asked to declare any disclosable pecuniary interests they may have in relation to items on the agenda for this meeting and to declare any such interests at this time.

*RC/11. Financial Performance Report 2012/13: Quarter 2

The Committee considered a report of the Treasurer to the Authority (RC/12/10) that set out the Authority's performance in the second quarter of the financial year (April to September 2012) as measured against the agreed financial targets.

The Treasurer reported upon the performance, which had been categorised into three areas, namely:

- Revenue Budget 2012/13;
- Capital Budget and Prudential Indicators 2012/13, and:
- Other financial indicators.

He indicated that the Authority was performing well against the targets on the whole. In terms of the Revenue Budget for 2012/13, spending was forecast to be £77.274million against an approved Revenue Budget of £78.676 million in 2012/13, representing an underspend of £1.402million, equivalent to 1.78% of the total budget. The Chief Fire Officer drew attention to the point that this underspend was attributable largely to the requirement stipulated by the Service Management Board that all budget holders across the organisation needed to trim their costs wherever possible with a view to reducing their budgets to secure £1 million of savings by the end of the financial year.

The Treasurer added that factors such as the final settlement on the Retained Duty System Part Time Firefighters settlement may impact on the level of savings achieved in 2012/13 and therefore there is no recommendation at this time on how the underspend may be utilised. The Authority would need to make a decision at the year-end as to how it wished to deal with the savings of £1.402 million. He commented that a Comprehensive Spending Review (CSR) Reserve had been established in 2010 to make provision for the cuts in Revenue Support Grant (RSG) that would be forthcoming in future years and the Authority may wish to consider adding to this Reserve.

In terms of the Capital Programme, the Treasurer reported that spending was projected to be £8.106million against an approved Programme of £10.060million, resulting in slippage in spending of £1.954million. Reference was made to 4 projects that had been added to the Capital Programme, namely:

- New ship structure at Service Training Centre, Plympton (£0.052million);
- Enhanced logistics command vehicle for the Urban Search and Rescue (USAR) fleet (£0.094million);
- Additional costs identified relating to the new facilities at Exeter Airport(£0.045million), and:
- USAR temporary building (£0.010million).

It was emphasised that each of these costs was to be funded entirely from revenue or grant income and thus, there was no associated increase in the Authority's external borrowing requirement.

It was noted that, in terms of the other financial performance indicators, the total debtor invoices outstanding as at 30 September 2012 was £99,920 as compared with £175,997 at 30 June 2012. The Treasurer suggested that, as the level of debt outstanding for more than 85 days was so small, this may be skewing the statistics and that he would look into an alternative means of reporting against this indicator.

RESOLVED

(a) That the budget virement outlined in paragraph 10.1 of report RC/12/10, be approved;

(b) That, in accordance with Financial Regulations, the increases in the 2012-13 capital programme (to be funded from revenue contributions), as outlined in paragraph 14.2 of the report be approved;

(c) That, subject to recommendations (a) and (b) above, the monitoring position in relation to projected spending against the 2012-2013 revenue and capital budgets be noted.

(d) That the performance against the 2012-2013 financial targets be noted.

***RC/12. <u>Treasury Management Performance 2012/13: Quarter 2</u>**

The Committee received for information a report of the Treasurer (RC/12/11) that set out the treasury management activities between 1 April and 30 September 2012 in accordance with the Authority's approved Treasury Management Strategy.

Adam Burleton, the Authority's Treasury Management Adviser, attended the meeting to update the Committee on the performance to date this year. He stated that the UK economy was still weak and was unlikely to improve significantly for some years. As a result, the Authority could expect to see slow growth and low interest rates to continue.

It was noted that, as a result of the investment priorities in place of security of capital and liquidity, the Authority had achieved a return of 0.67% against the benchmark of 0.60% on the 3 month LIBID rate. It was anticipated, therefore that the budget investment return for the year of £0.100million would be overachieved with a potential return of £0.227million.

In terms of borrowing, the Treasurer indicated that it was not intended that any further borrowing would be undertaken in the foreseeable future but the position would be monitored. Total borrowing as at 30 September 2012 was £28.637million.

RESOLVED that the performance in relation to the treasury management activities of the Authority for 2012-2013 (to September), as set out in report RC/12/11, be noted.

*** DENOTES DELEGATED MATTER WITH POWER TO ACT**

The meeting started at 10.00hours and finished at 10.50hours

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/1**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**4 FEBRUARY 2013**
SUBJECT OF REPORT	**FINANCIAL PERFORMANCE REPORT 2012-2013 – Quarter 3**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***(a) That the Authority be recommended to approve the virement as detailed in paragraph 10.1 of this report;*** ***(b) That, subject to (a) above, the monitoring position in relation to projected spending against the 2012-2013 revenue and capital budgets as set out in this report be noted;*** ***(c) That the performance against the 2012-2013 financial targets be noted.***
EXECUTIVE SUMMARY	This report provides the Committee with the third quarter performance against agreed financial targets for the current financial year. In particular, it provides a forecast of spending against the 2012-2013 revenue budget with explanations for the major variations. At this stage in the financial year it is forecast that spending will be £1.564m less than budget, equivalent to 1.98% of the total budget.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY BENEFITS AND RISKS ANALYSIS (ERBA)	Not applicable.
APPENDICES	Appendix A – Summary of Prudential Indicators 2012-2013.
LIST OF BACKGROUND PAPERS	None.

1. INTRODUCTION

1.1 This report provides the third quarterly financial monitoring report for the current financial year, based upon the position as at the end of December 2012. As well as providing projections of spending against the 2012-2013 revenue and capital budgets, the report also includes forecast performance against other financial performance indicators, including the prudential and treasury management indicators.

1.2 Table 1 below provides a summary of performance against the key financial targets.

TABLE 1 – FORECAST PERFORMANCE AGAINST KEY FINANCIAL TARGETS 2012-2013

	Key Target	Target	Forecast Outturn		Forecast Variance	
			Quarter 3	Previous Quarter	Quarter 3 %	Previous Quarter %
1	Spending within agreed revenue budget	£78.677m	£77.113m	£77.274m	(1.98)%	(1.78)%
2	Spending within agreed capital budget	£10.633m	£5.884m	£8.106m	(44.66)%	(19.42)%
3(a)	External Borrowing within Capital Financing Requirement (CFR).	£24.833m	£27.167m	£27.167m	9.40%	2.66%
3(b)	External Borrowing within Authorised Borrowing Limit (Maximum Agreed Borrowing)	£34.159m	£27.167m	£27.167m	(20.46)%	(20.46)%
4	On-going Budget Savings since 2010-11	£2.642m	£3.328m	£3.271m	(25.96)%	(23.81)%
5	Debt Ratio (debt charges over total revenue budget)	3.98%	3.71%	3.67%	(0.26)bp	(0.31)bp
6	General Reserve Balance as %age of total budget (minimum)	5.00%	6.19%	6.19%	(1.19)bp	(1.19)bp
			Actual as at 31 Dec 2012 %	**Previous Quarter %**	**Variance at 31 Dec 2012 %**	**Previous Quarter %**
7	Aged Debt Ratio (debtors more than 85 days old)	See paragraph 15.4 of report	N/A	N/A	N/A	N/A

1.3 The remainder of the report is split into the three sections of:

- **SECTION A** – Revenue Budget 2012/2013.
- **SECTION B** – Capital Budget and Prudential Indicators 2012/2013.
- **SECTION C** – Other Financial Indicators.

1.4 Each of these sections provides a more detailed analysis of performance, including commentary relating to the major variances.

2. SECTION A - REVENUE BUDGET 2012-2013

2.1 Table 2 overleaf provides a summary of the forecast spending against all agreed subjective budget heads, e.g. employee costs, transport costs etc. This table indicates that spending by the year end will be £77.113m compared with an agreed budget figure of £78.677m, representing an underspend of £1.564m, equivalent to 1.98% of the total budget.

2.2 This underspend position is largely attributable to the instruction given by the Chief Fire Officer and Senior Management Board to all budget holders across the organisation to trim costs wherever possible with a view to reducing their areas of budget responsibility secure £1m of savings by the end of the financial year. Delivery of in-year savings form an important part of our overall strategy to build reserve balances at this time to provide additional financial contingency during the next four year period when the more severe budget reductions are anticipated. Based on the work so far we are confident that this target can be achieved and the £1m savings are therefore reflected in the figures contained in Table 2.

2.3 A further significant contribution to the overall underspend position is a forecast reduction in retained pay costs of approximately £0.4m as a result of the positive work of recent years to reduce the number of operational incidents. It should be emphasised, however, that at this time we are still awaiting the final outcome of negotiations relating to the employment tribunal under the Part-Time Workers (less than favourable working conditions), which has ruled that retained firefighters should have had the same access to a pension scheme as their wholetime firefighter colleagues since the year 2000. As the largest employer of retained firefighters in the country it is anticipated that the costs falling on the Authority as a result of this ruling will be significant. To date, Members have agreed that a financial Provision be set aside from previous year underspends, current balance of £1m, to fund these costs when they fall. However, depending on the number of retained firefighters, both existing and retired, who opt to join the pension scheme and back date, there is a risk that this amount will not be sufficient to cover all of the costs. Should it be the case that the level of Provision is deemed insufficient, then, a further charge will be required against the 2012-13 underspend to increase the Provision balance.

2.4 These forecasts are based upon the spending position at the end of December 2012, historical trends, and information from budget managers on known commitments. It should be noted that whilst every effort is made for projections to be as accurate as possible, some budget lines are susceptible to volatility in spending patterns during the year e.g. retained pay costs which are linked to activity levels, and it is inevitable therefore that final spending figures for the financial year will differ than those projected in this report. Explanations of the more significant variations from budget (over £50k variance) are explained in paragraphs 3 to 10 of the report.

TABLE 2 – REVENUE MONITORING STATEMENT 2012-2013

DEVON & SOMERSET FIRE AND RESCUE AUTHORITY

Revenue Budget Monitoring Report 2012/13

Line No		2012/13 Budget £000 (1)	Year To Date Budget £000 (2)	Spending to Month 9 £000 (3)	Projected Outturn £000 (4)	Projected Variance over/ (under) £000 (5)
	SPENDING					
	EMPLOYEE COSTS					
1	Wholetime uniform staff	31,833	23,822	24,140	32,354	521
2	Retained firefighters	12,134	8,895	7,682	11,710	(424)
3	Control room staff	1,568	1,168	1,208	1,618	50
4	Non uniformed staff	10,533	7,760	7,675	10,438	(95)
5	Training expenses	1,304	978	636	1,006	(298)
6	Fire Service Pensions recharge	2,103	1,752	1,760	1,939	(164)
		59,475	**44,375**	**43,101**	**59,065**	**(410)**
	PREMISES RELATED COSTS					
7	Repair and maintenance	1,129	1,214	903	1,091	(38)
8	Energy costs	593	416	332	516	(77)
9	Cleaning costs	453	340	203	412	(41)
10	Rent and rates	1,476	1,224	1,427	1,521	45
		3,651	**3,194**	**2,865**	**3,540**	**(111)**
	TRANSPORT RELATED COSTS					
11	Repair and maintenance	602	451	400	555	(47)
12	Running costs and insurances	1,271	953	1,248	1,264	(7)
13	Travel and subsistence	1,714	1,268	966	1,444	(270)
		3,587	**2,672**	**2,614**	**3,263**	**(324)**
	SUPPLIES AND SERVICES					
14	Equipment and furniture	2,349	1,835	1,774	2,150	(199)
15	Hydrants-installation and maintenance	108	81	65	108	-
16	Communications	1,869	1,401	1,074	1,778	(91)
17	Uniforms	1,267	950	735	1,096	(171)
18	Catering	174	131	140	185	11
19	External Fees and Services	224	168	323	393	169
20	Partnerships & regional collaborative projects	237	103	80	240	3
		6,228	**4,669**	**4,191**	**5,950**	**(278)**
	ESTABLISHMENT COSTS					
21	Printing, stationery and office expenses	462	358	278	410	(52)
22	Advertising	50	37	24	39	(11)
23	Insurances	403	312	342	443	40
		915	**707**	**644**	**892**	**(23)**
	PAYMENTS TO OTHER AUTHORITIES					
24	Support service contracts	585	427	292	520	(65)
		585	**427**	**292**	**520**	**(65)**
	CAPITAL FINANCING COSTS					
25	Capital charges	4,669	2,499	2,234	4,461	(208)
26	Revenue Contribution to Capital spending	3,208	8	0	3,208	-
		7,877	**2,507**	**2,234**	**7,669**	**(208)**
27	**TOTAL SPENDING**	**82,318**	**58,551**	**55,941**	**80,899**	**(1,419)**
	INCOME					
28	Treasury management investment income	(100)	(75)	(97)	(240)	(140)
29	Grants and Reimbursements	(1,778)	(1,279)	(1,733)	(2,061)	(283)
30	Other income	(1,620)	(1,215)	(877)	(1,399)	221
31	Internal Recharges	(143)	(107)	(32)	(86)	57
32	**TOTAL INCOME**	**(3,641)**	**(2,676)**	**(2,739)**	**(3,786)**	**(145)**
33	**NET SPENDING**	**78,677**	**55,875**	**53,202**	**77,113**	**(1,564)**

3. EMPLOYEE COSTS

Wholetime Staff

3.1 At this stage it is projected that spending on wholetime pay costs will be £0.521m more than the budget figure equivalent to 1.64% of the total wholetime pay budget. This projection includes the agreed 1% pay award from 1 July 2012, and makes assumptions as to the timing of potential retirees during the course of the financial year.

Retained Pay Costs

3.2 Current forecast is for retained pay costs to be £0.424m below the agreed budget figure. In making this projection an assumption has been made that activity levels in the remainder of the financial year are consistent with the average for the same period for the last three financial years. It should be emphasised that by its very nature retained pay costs can be subject to significant variations e.g. volatility to spending caused from spate weather conditions.

Control Room Staff

3.3 The main reason for a forecast overspend against the control room staffing budget is the need to overstaff to provide adequate cover during the period of the consolidation of two control rooms, and long term sickness issues. .

Non-Uniformed staff Costs

3.4 It is anticipated that spending against non-uniformed posts will be £0.095m less than budget primarily from vacancy management.

Training costs

3.5 An underspend of £0.298m is currently forecast from training costs, primarily as a result of the cancellation of some planned courses e.g. Assessment Development Centres (ADC), together with a contribution from the Training Department to the overall savings strategy.

Pension Costs

3.6 It is anticipated that fewer ill-health retirements than had been budgeted for will result in some savings against pension costs.

4. PREMISES RELATED COSTS

Energy Costs

4.1 It is anticipated that energy costs will be £0.077m less than budget as a consequence of initiatives to reduce usage e.g. installation of smart meters into fire stations.

5. TRANSPORT RELATED COSTS

Travel and Subsistence

5.1 As a result of the overall strategy to secure in-year savings it is forecast that costs associated with travel and subsistence will be £0.270m less than budget.

6. SUPPLIES AND SERVICES

Equipment and Furniture

6.1 As a result of the overall strategy to secure in-year savings it is forecast that costs associated with replacement equipment will be £0.199m less than budget.

Communications

6.2 As a result of the overall strategy to secure in-year savings it is forecast that costs associated with communications and ICT replacement will be £0.091m less than budget.

Personal Protective Equipment (PPE)

6.3 As a result of delays in the phased roll out of replacement PPE across the Service it is forecast that this budget head will be underspent by £0.171m.

External Fees and Services

6.4 Whilst this budget head is forecast to overspend by £0.169m, as a result of external support costs to deliver projects within the Change and Improvement Programme, this cost is well within the overall budget allocated to Change and Improvement.

7. ESTABLISHMENT COSTS

Printing and Stationery

7.1 As a result of the overall strategy to secure in-year savings it is forecast that costs associated with replacement equipment will be £0.052m less than budget.

8. PAYMENTS TO OTHER AUTHORITIES

Support Service Contracts

8.1 Reduction in fees for external audit and the Occupational Health Unit will result in savings from external support costs.

9. CAPITAL FINANCING COSTS

Capital Charges

9.1 External debt charges will be less than budget primarily as a result of slippage in capital spending against last year's capital programme and the consequential impact on financing costs.

10. INCOME

Treasury Management Investment Income

10.1 As is reported elsewhere on the agenda, within the Treasury Management Performance Report Quarter 3, higher levels of cash balances than anticipated has resulted in higher returns on temporary investments.

Grants and Reimbursements

10.2 It is anticipated that grant income will exceed budget by an amount of £0.283m primarily as a result of a Section 106 grant receipt relating to development at Hinckley Point, and grant receipts from the CLG to fund USAR initiatives.

Other Income

10.3 A forecast shortfall of £0.221m against the other income budget is a reflection of the difficult market conditions which, in particular, is having an impact on external training customers. This shortfall is partly offset by a reduction in training staff costs.

10. BUDGET VIREMENTS

10.1 Financial Regulations stipulate that in-year virements between subjective budget lines in excess of £50,000 require the approval of the Resources Committee, and the full Authority where the amount exceeds £150,000 (Regulations A19 and A20 refers). Table 3 below provides details of one proposed virement which exceeds £150,000 in total, and therefore requires the approval of Fire and Rescue Authority.

TABLE 3 – REQUEST FOR BUDGET VIREMENT

Budget Line	From £m	To £m	Reason
Premises Related Costs – Repair and Maintenance (Table 2 Line 7)	(0.490)		This virement is not a request for further funding, it is an accounting issue to recognise that the amount of £0.490m included in the 2012-13 revenue budget to fund the refurbishment of the Fire Control building at Service Headquarters, is required to be capitalised due to the nature of the improvement works to be completed.
Revenue Contribution to Capital Spending (Table 2 Line 26)		0.490	

10.2 For presentation purposes, the impact of this virement has already been included in Table 2 on the basis that it is approved.

11. BUDGET SAVINGS

11.1 Members will recall that in setting the 2012-13 revenue budget on-going savings of £1.6m were identified as part of our savings strategy to manage the 25% reductions in government grants over the four year period 2011-12 to 2014-15, as announced in the Comprehensive Spending Review 2010 (CSR 2010). This £1.6m of savings are in addition to £1.042m of on-going savings identified the previous year, therefore increasing the amount of savings removed from the base budget over the last two financial years to £2.642m. At this stage it is forecast that total savings achieved by the end of the financial year will be £3.328m, which is £0.686m more than target.

11.2 This overachievement is primarily as a result of the work with budget managers across the organisation to scrutinise their areas of budget with a view to reducing budget spend in the current year.

12. RESERVES AND PROVISIONS

12.1 As well as the funds available to the authority by setting an annual budget, the Authority also holds reserve and provision balances.

Reserves

12.2 There two types of Reserves held by the Authority:

Earmarked Reserves – these reserves are held to fund a **specific** purpose and can only be used to fund spending associated with that specific purpose. Should it transpire that not all of the agreed funds are required then the agreement of the Authority would be sought to decide how any remaining balance is to be utilised.

General Reserve – usage from this Reserve is **non-specific** and is held to fund any unforeseen spending that had not been included in the base budget e.g. excessive operational activity resulting in significant retained pay costs.

Provisions

12.3 In addition to reserves the Authority may also hold provisions which can be defined as:

Provisions – a Provision is held to provide funding for a liability or loss that is known with some certainty will occur in the future, but the timing and amount is less certain.

12.4 A summary of predicted balances on Reserves and Provisions is shown in Table 4 overleaf. These figures exclude any potential in-year transfers to/from the revenue budget in the current financial year.

TABLE 4 – FORECAST RESERVES AND PROVISION BALANCES 31 MARCH 2013

RESERVES	Balance as at 1 April 2012 £000	Spending to Quarter 3 2012 £000	Projected Outturn £000	Projected Balance as at 31 March 2013 £000	
Earmarked reserves					
Lundy Island Fire Cover	12	-	12	0	
Positive pressure ventilation training	4	-	4	0	
Mobilisation equipment	57	56	57	0	
Welfare building works	15	-	15	0	
Change & improvement training	6	2	4	2	
Gold command courses	24	17	24	0	
Interagency liaison officer costs	10	8	10	0	
Grants unapplied in 2010-11	2,521	184	650	1,871	
Change & improvement programme	673	-	-	673	
Commercial Services	300	51	80	220	
Direct Funding to Capital	1,044	-	1,044	0	
CSR 2010	1,817	-	-	1,817	
Total earmarked reserves	**6,483**	**318**	**1,900**	**4,583**	
General reserve					
General fund balance	**4,873**			**4,873**	
Percentage of general reserve compared to net budget					6.19%
TOTAL RESERVE BALANCES	**11,356**			**9,456**	
PROVISIONS					
Part time workers - retained fire fighters	1,853	857	990	863	
TOTAL PROVISIONS	**1,853**	857	990	**863**	

13. SUMMARY OF REVENUE SPENDING

13.1 At this stage of the financial year it is forecast that revenue spending will be £1.564m less than the agreed budget figure of £78.677m, primarily as a result of the £1m savings achieved from budget holders across the organisation who have looked to trim costs wherever possible,

13.2 No recommendations are included in this report as to how any underspend is to be utilised as there are still three months spending remaining, and the figures will be subject to change e.g. potential for additional pension costs resulting from the employment tribunal under the Part-Time Workers (Prevention of Less Favourable Treatment) Regulations 2000. It is anticipated, however, that at the year-end we will be in a position to make a further contribution to reserve balances to support our overall strategy to manage the significant budget reductions to come over the next four year period. A further update based on quarter 4 will be reported to the next meeting of this Committee in May 2013.

14. SECTION B – CAPITAL PROGRAMME 2012-2013 AND PRUDENTIAL INDICATORS

Monitoring of Capital Spending in 2012-2013

14.1 Table 5 overleaf provides a summary of forecast spending against the 2012-2013 capital programme. Latest projection is for capital spending to be £5.884m against a total programme of £10.633m, resulting in slippage in spending of £4.749m.

14.2 It should be noted that the 2012-13 programme agreed at the last meeting of this Committee has increased by £0.573m from £10.060m to £10.633m as a result of:

a. **Fire Control Building (£0.490m)** – As is reported in paragraph 10.1 of this report funds were included in the revenue budget to cover the refurbishment costs associated with the Fire Control building at Service Headquarters, to recognise that the work on the building will be of a capital nature provision is needed to be made in the capital programme. The scheme will still funded from a revenue contribution to capital as originally agreed.

b. **Light vehicles replacement (£0.083m)** – A further £0.083m to fund replacement of light vehicles to be funded from CLG grant income and revenue contributions to capital.

14.3 It should be emphasised that as each of these schemes are to be fully funded from revenue contributions or grant income, there is no increase in the external borrowing requirement as a result of these additions.

TABLE 5 – CAPITAL MONITORING 2012-13

Capital Programme 2012/13

Item	PROJECT	2012/13 £000 Budget	2012/13 £000 Predicted outturn	2012/13 £000 Variation to budget
	Estate Development			
1	SHQ major building works	92	77	(15)
2	Major Projects - Training Facility at Exeter Airport	3,284	2,184	(1,100)
3	Minor improvements & structural maintenance	2,140	530	(1,610)
4	Welfare Facilities	15	15	-
5	USAR works	105	105	-
6	Minor Works slippage from 2010-11	343	343	-
7	Minor Works slippage from 2011-12	1,674	1,063	(611)
8	STC - Ship Structure	52	52	-
	Estates Sub Total	**7,705**	**4,369**	**(3,336)**
	Fleet & Equipment			
9	Appliance replacement	700	540	(160)
10	Specialist Operational Vehicles	920	59	(861)
11	Vehicles funded from revenue	177	177	-
12	Equipment	242	91	(151)
13	Appliance and Specialist Operational Vehicles slippage	889	648	(241)
	Fleet & Equipment Sub Total	**2,928**	**1,515**	**(1,413)**
	Overall Capital Totals	**10,633**	**5,884**	**(4,749)**
	Programme funding			
	Main programme	4,179	602	(3,577)
	Revenue funds	4,433	3,261	(1,172)
	Grants	2,021	2,021	-
		10,633	**5,884**	**(4,749)**

Slippage in Capital Spending 2012-13

14.4 Members are aware that this Authority has a three rolling capital programme, reviewed annually. This reflects changes in circumstances within individual projects and slippage that will occur from time to time. This is not unusual as is the case for the Training Academy at Exeter Airport. This has been delayed due to contract negotiations, contaminated land and poor weather. As a consequence, £1.1m has slipped into 2013/14. It is proposed to not proceed with projects planned for 2013/14, reducing the budget significantly. Those projects that have slipped into 2013/14 have been reassessed and a further £1.1m saved as a consequence by only taking forward those already committed.

14.5 There has also been slippage within the Fleet replacement programme from 2012/13 of £1m. Again this is not unusual and remains within the arrangements for a three rolling capital programme. This is a result of aligning the Specialist Vehicle replacement with the Tiered Approach at Tier 3. These vehicles are essential to the programme and include, Environmental Units, Incident Command Units, Prime Movers and 4 x 4 capability recognising the need to have improved arrangements for off-road, flooding and snow. This also includes vehicles for the Training Academy at Exeter Airport. These vehicles are all in various stages of build and the slippage reflects the continuations payments which allow the vehicles to be completed during 2013/14.

Prudential Indicators (including Treasury Management)

14.6 Appendix A provides a summary of forecast performance against all of the agreed Prudential Indicators for 2012-2013, which illustrates that at this time there is no anticipated breach of any of these indicators.

External Borrowing

14.7 Table 5 illustrates how the forecast spending of £5.884m is to be financed, which includes additional borrowing of £0.602m to finance capital spending. As was reported in the previous report, additional borrowing of £2m was taken during the first quarter of the financial year which increased total borrowing as at 30 September 2012 to £28,367m. It is forecast that this figure will reduce to £27.167m by 31 March 2013 as a result of debt repayments. This level of borrowing is well within the Authorised Limit for external debt of £34.159m (the absolute maximum the Authority has agreed as affordable).

Treasury Management Income

14.8 At this stage of the year income from the investment of working balances into short-term deposits is anticipated to exceed the target figure of £0.100m by 31 March 2013, as a result of higher cash balances than anticipated. Investment returns for quarter 3 have yielded an average return of 0.49%, which outperforms the LIBID 3 Month return (industry benchmark) of 0.40% for the quarter.

15. SECTION C - OTHER FINANCIAL PERFORMANCE INDICATORS

Aged Debt Analysis

15.1 Total debtor invoices outstanding as at 31 December 2012 is £249,120, an increase on the previous reported figure of £99,920 as at 30 September 2012.

15.2 Of this figure an amount of £10,274 (£13,667 as at 30 September 2012) was due from debtors relating to invoices that are more than 85 days old, equating to 4.12% (13.67% as at 30 September 2012) of the total debt outstanding. Table 7 below provides a summary of all debt outstanding as at 31 December 2012.

TABLE 6 – OUTSTANDING DEBT AS AT 31 DECEMBER 2012

	Total Value £	%
Current (allowed 28 days in which to pay invoice)	178,473	71.64%
1 to 28 days overdue	14,244	5.72%
29-56 days overdue	46,084	18.50%
57-84 days overdue	45	0.02%
Over 85 days overdue	10,274	4.12%
Total Debt Outstanding as at 31st December 2012	**249,120**	**100.00%**

15.3 The latest value of debts more than 85 days old of £10,274 compares to a figure of £13,667 for the previous quarter therefore showing a small improvement of £3,394, and yet the ratio improves significantly from 13.67% as at 30 September 2012, to 4.12% as at 31 December 2012. This disproportionate improvement in the ratio is primarily because the total value of value debt outstanding as at 31 December 2012 is more than twice the amount as at 30 September.

15.4 Given this volatility it was agreed at the last meeting that I consider a more meaningful presentation of the figures. Having considered other means of presentation e.g. measuring against a cash sum, or against the number of invoices which are more than 85 days old, I propose that given the small numbers involved that I provide a list of those debts more than 85 days old and more than £1,000 in value, together with an update of action being taken. This way Members can see the total picture and seek further information as necessary. Table 7 below provides this detail as at 31 December 2012.

TABLE 7 – DEBTS OUTSTANDING FOR MORE THAN 85 DAYS

	No	Total Value	Action Taken
Debts less than £1,000	5	£2,460	Each debt being pursued by the Risk and Insurance Officer.
Employee A	1	£1,334	Debt relates to a third party insurance claim.Being repaid by employee at £100 per month
Employee B	1	£6,479	Debt relates to third party insurance claim, Payment will be subject to insurance company settling the claim.

Payment of Supplier Invoices within 30 days

15.4 The authority attempts to pay its suppliers promptly. The target is that 98% of invoices should be paid within 30 days (or other agreed credit terms). At the end of December 2012 our performance stood at 96.41%, just below our target.

KEVIN WOODWARD
Treasurer to the Authority

APPENDIX A TO REPORT RC/13/1

PRUDENTIAL INDICATORS 2012-2013

Prudential Indicators and Treasury Management Indicators	Forecast £m	Target £m	Variance (favourable) /adverse
Capital Expenditure	**5.884**	**10.633**	**(£4.749m)**
Capital Financing Requirement (CFR) - Total	**26.391**	**29.961**	**(£3.570m)**
- Borrowing	24.833	28.403	
- Other long term liabilities	1.558	1.558	
Authorised limit for external debt - Total	**28.725**	**35.746**	**(£7.021m)**
- Borrowing	27.167	34.159	
- Other long term liabilities	1.558	1.587	
Debt Ratio (debt charges as a %age of total revenue budget	**3.71%**	**3.98%**	**(0.28)bp**
Cost of Borrowing – Total	**1.211**	**1.246**	**(£0.035m)**
-Interest on existing debt as at 31-3-12	1.147	1.147	
-Interest on proposed new debt in 2012-13	0064	0.099	
Investment Income – full year	**0.240**	**0.100**	**(£0.140m)**
	Actual (31 Dec 2012) %	**Target for quarter %**	Variance (favourable) /adverse
Investment Return	**0.49%**	**0.40%**	**(0.09) bp**

Prudential Indicators and Treasury Management Indicators	Forecast (31 March 2013) %	Target Upper limit %	Target Lower limit %	Variance (favourable) /adverse %
Limit of fixed interest rates based on net debt	100.00%	100.00%	70.00%	0.00%
Limit of variable interest rates based on net debt	0.00%	30.00%	0.00%	(30.00%)
Maturity structure of borrowing limits				
Under 12 months	3.51%	30.00%	0.00%	(26.49%)
12 months to 2 years	0.99%	30.00%	0.00%	(29.01%)
2 years to 5 years	1.15%	50.00%	0.00%	(48.85%)
5 years to 10 years	5.03%	75.00%	0.00%	(69.97%)
10 years and above	89.31%	100.00%	50.00%	(10.69%)

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/2**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**4 FEBRUARY 2013**
SUBJECT OF REPORT	**TREASURY MANAGEMENT PERFORMANCE 2012-2013 – QUARTER 3**
LEAD OFFICER	**TREASURER TO THE AUTHORITY**
RECOMMENDATIONS	***That the performance in relation to the treasury management activities of the Authority for 2012-2013 (to December), as set out in this report, be noted.***
EXECUTIVE SUMMARY	The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a Code of Practice for Treasury Management. The Code suggests that members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This report therefore ensures this Authority is embracing Best Practice in accordance with CIPFA's Code of Practice.
RESOURCE IMPLICATIONS	As indicated within the report.
EQUALITY BENEFITS AND RISKS ANALYSIS	Not applicable.
APPENDICES	A. Investments held as at 31 December 2012.
LIST OF BACKGROUND PAPERS	Treasury Management Strategy (including Prudential and Treasury Indicators) Report DSFRA/12/3 – as approved at the meeting of the DSFRA meeting held on the 17 February 2012.

1. INTRODUCTION

1.1 The Treasury Management Strategy for the Authority is underpinned by adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) 2011 Treasury Management in Public Services Code of Practice (the Code) and the CIPFA Prudential Code. The most recent revision of the Code was adopted by the Authority at its meeting on 17 February 2012. The Authority fully complies with the primary requirements of the Code, which includes:

- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
- The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
- The Receipt by the full Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- The delegation by the authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

1.2 Treasury management in this context is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "

1.3 The preparation of this report demonstrates that the Authority is implementing best practice in accordance with the code.

2. ECONOMIC BACKGROUND

Economic performance to date

2.1 During the quarter ended 31st December, in the UK, the Chancellors Autumn Statement extended austerity for a further year to 2017/18 and in light of the deterioration in the borrowing forecasts, the Chancellor chose to disregard one of his fiscal targets, to get debt as a share of GDP falling by 2015/16. Whilst he did announce a number of growth friendly measures, including a cut in corporation tax, it was largely a case of give with one hand and take away with the other. Equity prices in the UK and overseas largely continued to rise over the course of the fourth quarter, with the FTSE 100 picking up from 5,820 to 5,898.

2.2 In the Eurozone, market sentiment continued to be steadied by the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt. Activity indicators, however, point to a deepening recession in the region.

2.3 Internationally, the US economy's recovery has remained soft although the agreement reached on 1st January to avert some of the "fiscal cliff" scheduled for the start of 2013 reduces the risk of a new recession.

UK economy

2.4 The Chancellor’s Autumn Statement recognised that the Government is not going to achieve its original timetable for reducing the budget deficit and total debt; the timescale has accordingly been extended. The housing market looks as if it will continue to be weak for a long time yet and the construction industry is contracting.

2.5 The main rating agencies have all made it clear they are reviewing the UK’s “AAA” status in early 2013. There is a material chance of the current ratings being downgraded. Although the UK will retain its “safe haven” status, a change in rating may place some upside pressure on gilt yields

2.6 Consumers are likely to remain focused on paying down debt. Weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed; this will be compounded by inflation being higher than increases in average earnings i.e. disposable income will still be eroded.

2.7 There is little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth and if negative gross domestic product growth continues into the first quarter of 2013 it would be the first triple dip recession since records began in 1955.

2.8 The overall balance of risks to economic recovery in the UK remains weighted to the downside.

Sector’s interest rate forecast

2.9 Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report for November 2012. The Bank is now only forecasting growth at around 1% in 2013 and 2% in 2014.

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.80%	2.00%	2.20%
10yr PWLB rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%
25yr PWLB rate	3.80%	3.80%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.30%
50yr PWLB rate	4.00%	4.00%	4.00%	4.00%	4.10%	4.10%	4.20%	4.30%	4.50%

3. TREASURY MANAGEMENT STRATEGY STATEMENT

Annual Investment Strategy

3.1 The Authority approved its Annual Investment Strategy, incorporating the Treasury Management Strategy Statement (TMSS), at its meeting on 17 February 2012. This Strategy outlines the Authority’s investment priorities as follows:

- Security of Capital
- Liquidity

3.2 The Authority will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a significant proportion of investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector.

3.3 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3.4 A full list of investments held as at 31 December 2012 are shown in Appendix A.

3.5 Investment rates available in the market have continued at historically low levels.

3.6 The average level of funds available for investment purposes during the quarter was £25.449m (£25.048m in previous quarter). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

Benchmark	Benchmark Return	Authority Performance	Investment interest to end of December
3 Month LIBID	0.40%	0.49%	£97,245

3.7 As illustrated above, the authority has outperformed the 3 month LIBID benchmark by 0.09 bp**.** It is anticipated that the budgeted investment return for the year of £0.100m will be overachieved. Authority performance so far indicates that the figure will be overachieved by £0.140m.

Borrowing Strategy

Prudential Indicators

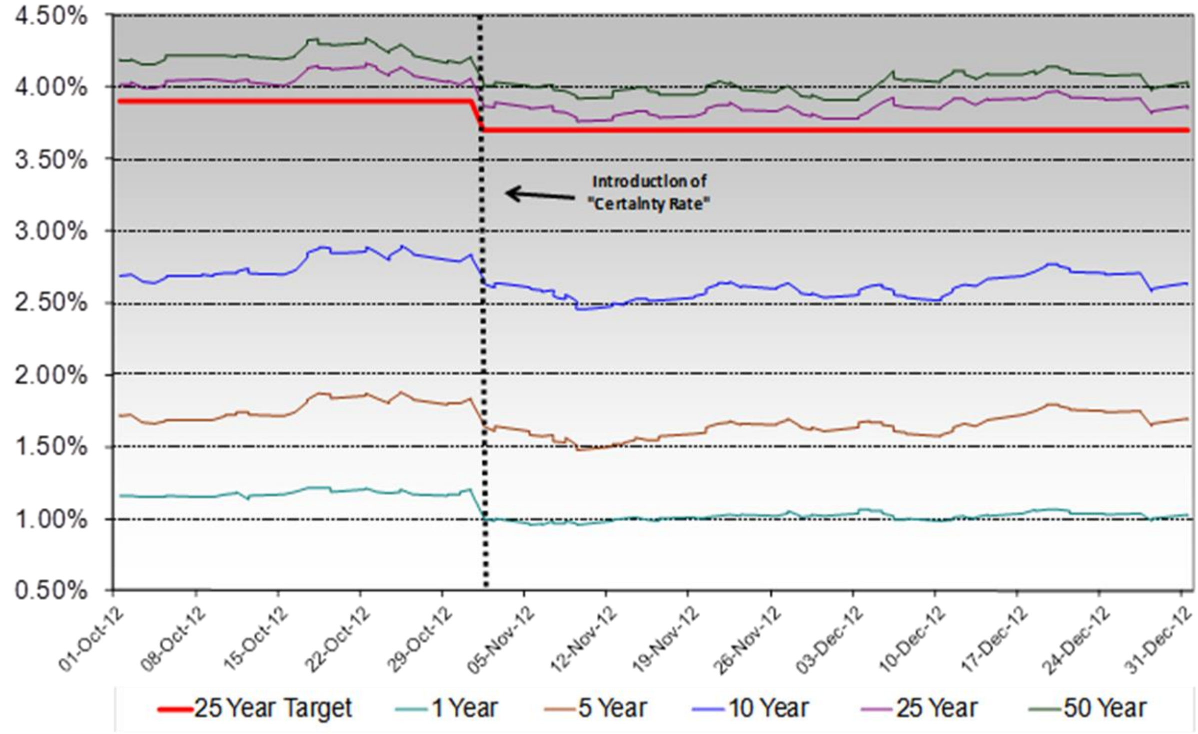
3.8 It is a statutory duty for the Authority to determine and keep under review the “Affordable Borrowing Limits”. The Authority’s’ approved Prudential Indicators (affordability limits) are outlined in the approved TMSS.

3.9 A full list of the approved limits (as amended) are included in the Financial Performance Report 2012-2013, considered elsewhere on the agenda, which confirms that no breaches of the Prudential Indicators were made in the period to December 2012 and that there are no concerns that they will be breached during the financial year.

3.10 Total external borrowing as at 31 December 2012 stood at £28.367m the same figure as at 30 September. No new borrowing was taken out during the quarter and nothing was repaid. No debt rescheduling was taken out during the quarter.

3.11 The graph below shows the movement in PWLB rates for the last quarter (to 31.12.12). It is anticipated that internal borrowing and available grants will reduce the call on any further borrowing and therefore it is unlikely that any further borrowing will be undertaken this financial year.

PWLB Rates October to December 2012



4. SUMMARY

4.1 In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides members with a third quarter report of the treasury management activities for 2012-2013. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken so far, with priority being given to liquidity and security over yield. Whilst investment returns are still low as a consequence of the fall in interest rates, the Authority is still anticipating that the investment returns will be greater than originally budgeted.

KEVIN WOODWARD
Treasurer

Investments as at 31st December 2012

% of total investments	Counterparty	Maximum to be invested (£m)	Total amount invested (£m)	Call or Term	Date if Term	Interest Rate
23.02%	Bank of Scotland	5.0	1.500	T	04/07/2013	3.00%
			1.500	T	04/07/2013	3.00%
			2.000	T	01/02/2013	2.00%
16.11%	Barclays	10.0	1.500	T	12/03/2013	0.46%
			2.000	T	07/03/2013	0.46%
23.02%	National Westminster Bank	5.0	5.000	T	21/01/2013	1.25%
11.74%	Ignis Money Market Fund	5.0	2.550	C		Variable
0.78%	Black Rock	5.0	0.171	C		Variable
6.91%	Nationwide B/S	1.5	1.500	T	28/02/2013	0.44%
9.21%	Local Authority	1.5	2.000	T	15/07/2013	0.34%
9.21%	Treasury Bills	2.0	2.000	T	18/02/2013	0.19%
			21.721			

DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/03**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**4 February 2013**
SUBJECT OF REPORT	**DRAFT CAPITAL PROGRAMME 2013-14 TO 2015-16**
LEAD OFFICER	**DIRECTOR OF SERVICE SUPPORT AND TREASURER**
RECOMMENDATIONS	***That the following recommendations of the Capital Programme Working Party be approved:*** ***(a) that the report and specifically the potential impact of the proposed Capital Programme, from 2016-17 onwards, on the 5% Prudential Indicator be acknowledged;*** ***(b) that, nonetheless, the Resources Committee be recommended to commend to the full Authority:*** ***(i) that the draft Capital Programme 2013-14 to 2015-16 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B to the report, be approved; and*** ***(ii) that the indicative Capital Programme 2016-17 to 2018-19 and associated Prudential Indicators, as summarised in Appendices A and B to the report, be accepted in principle***
EXECUTIVE SUMMARY	This report sets out the proposals for the 2013-14 to 2015-16 Capital Programme and also details the difficulties in meeting the full capital expenditure requirement for this Authority, given its size, number of fire stations and fire appliances required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator against a reducing revenue budget. All aspects of the programme have been considered. It is proposed to significantly reduce the Estates budget for 2013/14, along with slippage from 2012/13 to keep within the 5% limit. The fleet budget for the same period has also been adjusted to support the introduction of the Light Rescue Pump (LRP).

	The Prudential Indicator has been profiled over 6 years instead of the usual 3 years to ensure sufficient funds are available for the LRP programme pending approval for contract award. Whilst the proposed Capital Programme, as set down in Appendix A, is recommended for approval, this programme comes with some risks to this Authority in maintaining the 5% ceiling for the Prudential Indicator. Nonetheless, following consideration at its meeting on 21 January 2013, the Capital Programme Working Party agreed to recommend that the Committee commend the Capital Programme as detailed to the Authority for approval.
RESOURCE IMPLICATIONS	As indicated within the Report
EQUALITY RISKS AND BENEFITS ANALYSIS (ERBA)	An initial assessment has not identified any equality issues emanating from this report sufficient to warrant undertaking a full ERBA.
APPENDICES	A. Summary of Proposed Capital Programme 2013/14 –2015/16 (and indicative Capital Programme 2016/17 to 2018/19). B. Prudential Indicators 2013/14 – 2015/16 (and indicative Prudential Indicators 2016/17 to 2018/19).
LIST OF BACKGROUND PAPERS	None

1. <u>INTRODUCTION</u>

1.1 Each year the Capital Programme is reviewed and adjusted to include new projects and those carried forward, allowing the capital investment needs of the Service to be understood over a three year rolling programme. Each year considerable effort is made to ensure that the impact of borrowing is maintained below the 5% ratio of financing costs to net revenue stream – one of several Prudential Indicators previously approved by the Authority. The impact of a reducing revenue base on the Service's ability to borrow whilst maintaining debt charge below this ceiling has, however, made the allocation of funds between the main cost centres of fleet and estates increasingly difficult.

1.2 In the last two financial years this Authority has been in receipt of approximately £2m grant from the Department for Communities and Local Government (CLG). From 2013/14 and going forwards, however, CLG has revised the capital funding process to provide for part to be by allocation and part subject to a bidding process. The Authority previously approved submission of a bid by the Service of £4.760m to support the introduction of the Light Rescue Pump. The bid was not successful and the remaining distribution of grant (based on population) has been reduced by over 30% to £1.4m.

1.3 Over the last 4 years funds have been directed towards specific Estates projects culminating in the Training Academy build at Exeter Airport, reducing the available budget for the vehicle replacement programme, thereby creating a significant backlog. There is an increasing need to reinstate this programme in the next financial year, with the proposed introduction of the Light Rescue Pump.

1.4 Whilst this report proposes a programme for 2013/14 to 2015/16, balancing what is affordable in terms of its exposure to external borrowing and taking account of the current economic position, a reducing budget and changing interest rates, it does come with some risk in terms of progression of the Programme from 2016/17 onwards which may require a reconsideration by the Authority of its previous stance on the 5% Prudential Indicator.

1.5 A draft version of this report was submitted to the meeting of the Capital Programme Working Party on 21 January 2013. Following consideration of the issues raised in the report, the Working Party agreed to recommend:

"(a) that the report and specifically the potential impact of the proposed Capital Programme, from 2016-17 onwards, on the 5% Prudential Indicator be acknowledged;

(b) that, nonetheless, the Resources Committee be recommended to commend to the full Authority:

- ***(i) that the draft Capital Programme 2013-14 to 2015-16 and associated Prudential Indicators, as detailed in the report and summarised at Appendices A and B to the report, be approved; and***
- ***(ii) that the indicative Capital Programme 2016-17 to 2018-19 and associated Prudential Indicators, as summarised in Appendices A and B to the report, be accepted in principle"***

2. FINANCING OF THE PROPOSED CAPITAL PROGRAMME

2.1 In 2010/11 a report RC/08/10 - "Affordable Capital Investment Plans for 2009-2010 to 2011-12" was submitted to the Resources Committee regarding the instigation of a principle that debt repayments be kept below 5% of the total revenue budget. This may be breached in future years, although will not be as a consequence of borrowing being in excess of agreed limits, but future revenue budgets being lower than originally forecast at the time following the Comprehensive Spending Review (CSR) 2010 announcement. This, along with the reduction in government grant has a direct impact on the Capital Programme going forward.

2.2 The tests of affordability are measured by compliance with the CIPFA Prudential Code for Capital Financing for Local Authorities. Under this code, the Authority is required to set a suite of indicators to provide assurance that capital spending is prudent, affordable and sustainable. The indicators are reviewed annually, although set for the three year period. They also include setting maximum borrowing limits to provide assurance around prudence and the setting of maximum debt ratios to provide assurances in relation to affordability and sustainability.

2.3 The issue of affordable capital spending has been the subject of several reports to both this Committee and the Authority in recent years. The most recent report was considered in February 2012 (report DSFRA/12/2 refers) when setting the existing capital programme. The proposed programme contained in this report increases the external borrowing requirement to £31m by 2015/16, which would increase the debt ratio to 4.43%. The external borrowing requirement figure at the end of 2012/13 is forecast to be £27.2m.

2.4 Whilst a debt of £31m is not considered excessive for this size Authority, given the large size of the asset portfolio, it is clear that the Committee will want to monitor its exposure to further debt levels as the Service moves forward in the next 3 to 5 years, to ensure that the debt levels are affordable in the context of reducing budget and the ability to service debt repayments.

2.5 The focus of this Authority, over recent years, has been to control spending within the 5% limit. To achieve this, the Service has reduced the spend on the appliance replacement programme to support Estates projects, utilising revenue funding wherever possible. It has always been the intention to re-commence the fleet programme in full by 2013/14, however, the extent to which this can be achieved is subject to affordability as measured by the Prudential Indicators.

2.6 The revised programme has again been constructed on the basis of keeping the debt ratio within the 5% limit by 2015/16. This inevitably means that not all of the Service's capital investment backlog can be delivered in this period, and the position will need to be reviewed in twelve months' time when a clearer picture is available as to the extent of the future revenue grant reductions for 2015/16 once the next CSR announcement is known.

3. SERVICE ESTATES

3.1 Whilst combination provided many benefits, the Estates department inherited additional building stock with no increase in budget or staffing, limiting the ability of the department over recent years. Last year the department was subject to a review and has been re-structured, which will provide improved efficiencies and ways of working.

3.2 The budget for Estates remains, however, insufficient for the Authority's extensive property portfolio and associated maintenance requirements. Outside of specific projects the budget is normally in the range of £1.75 - £2m. This figure does not reflect the true costs which should be in the region of £5m per annum. Whilst the temporary increase in recent years, to meet specific Service projects, has proved successful; the level of future funding will only exacerbate this problem.

3.3 In seeking to present the Authority with an affordable programme it is proposed to cease all new projects for 2013/14 leaving a budget of £0.315m to complete the Service's Carbon Management Project. It is also proposed to limit those projects that will slip into the 2013/14 to £2.2m, providing a further saving of £1.1m. This will complete projects already committed, which include the shared use of Axminster fire station with Devon & Cornwall Police, along with essential works to Hartland fire station. This moratorium will be reviewed in 12 months' time. The maintenance budget, funded from revenue, remains in place.

3.4 Throughout 2013/14 it is intended to undertake a comprehensive review of the Authority's property portfolio, looking at what future professional and commercial opportunities may best be developed into a medium to longer term plan. The Service Management Property Plan will be revised and reported to the Committee in due course.

Training Academy - Exeter Airport

3.5 Following protracted lease negotiations and extensive site investigation works, the contract was awarded to 'Interserve' with a total project cost of £3.5m. The negotiation of contract delayed the original start date and as such they did not commence work on site until September 2012, resulting in slippage on spending of £0.760m into 2013-14. The inclement wet weather has further delayed works, although completion of the project is programmed for May 2013.

3.6 The Committee has been informed that planning consent for the Training Academy at Exeter Airport included an appliance bay for all training vehicles, a training tower and a facility for confined space training. Adjustments made to the original plan in reconciling the final project costs against available funding at the time, however, resulted in the removal of these elements. In rationalising the estates budget for 2013/14 there is an opportunity to replace these elements, at a cost of £0.340m. This will improve training capacity and commercial income potential for the future.

Fire Control

3.6 The contract for the refurbishment of fire control was awarded to Morgan Sindall and work has commenced on Phase 2. This second phase principally involves the construction of a new server room plus general refurbishment and improvements to the Control building. Authority funding for the project was identified in the 2012-13 budget process with some additional funds made available from the central government grant following the cancellation of the Regional Control Centre (RCC) project.

4. OPERATIONAL ASSETS

Vehicle Replacements/Equipment

4.1 The Authority has the second largest fleet of all fire and rescue services in England. Over the last four years, this budget has been reduced in support of the Estates programme, creating a significant backlog in vehicle replacement. This is becoming increasingly difficult to manage especially with increases in associated maintenance costs. Whilst this situation is far from ideal, the proposed re-investment in the Light Rescue Pump (LRP) programme, commencing in 2013/14, will help reduce this. The Authority has previously consulted on these vehicles and over the last twelve months the LRP has been subject to a pilot and a full procurement exercise.

4.2 There has however, been slippage within the Fleet replacement programme from 2012/13 of £1m resulting from the alignment of the Specialist Vehicle replacement with the Tiered Approach at Tier 3. Such slippage is not unusual and remains within the arrangements for a three rolling capital programme. The vehicles are, however, essential to the programme and include, Environmental Units, Incident Command Units, Prime Movers and 4 x 4 capability recognising the need to have improved arrangements for flooding and snow. Also included are vehicles for the Training Academy at Exeter Airport. These vehicles are all in various stages of build and the slippage reflects the continuations payments which allow the vehicles to be completed during 2013/14.

However, given the difficulties in proposing an affordable capital programme the replacement of both the foam tender and water bowsers have been slipped from 2013/14 and have been programmed to commence in 2016/17.

The equipment replacement needs for the Service have been set at £0451m, which incorporates equipment for the LRP Programme.

Light Rescue Pumps

4.3 It was planned that funding for the introduction of the Light Rescue Pump (LRP) would be part funded from government grant. The Minister reported last year that the grant would be:

- an efficiency fund, administered as a capital grant via a bidding process, and
- a pro-rata distribution using the current distribution method.

4.4 The Service submitted a bid for £4,760m over a two year period to offset future borrowing costs. It has now been confirmed that the Service has been unsuccessful in its application for funding and that the distribution of remaining grant has been reduced by over 30% to £1.4m. It is very disappointing that our bid of £4.760m has not been successful as this adversely impacts on our ability to roll out the LRP programme over the next 4 years. However given that the £4.760m will now need to be funded from external borrowing it is proposed that this programme takes place over a 6 year period. This additional borrowing runs the risk that the 5% Prudential Indicator will be breached at some point in the next 6 years. This report provides indicative prudential indicator figures beyond the normal 3 year period which highlights that the indicator is likely to be breached in 2016-17 (5.08%).

4.5 This risk will be offset to the extent that additional income is achieved from commercial activities during this period. It has been agreed in principle by the Authority that additional income, over and above current levels, will be utilised to fund capital projects in order to contain external borrowing as much as possible.

4.6 Despite this, the LRP programme remains the bedrock of the Authority's future fleet replacement strategy for introducing 'Tiered Response'; meeting future service delivery arrangements with a more cost effective vehicle, improved service to local communities, along firefighter safety. The capital programme has been adjusted to support this proposal over a six year term. The procurement timetable will provide for the introduction of 6 LRP's in 2013-14 requiring a financial commitment of £1.015m and 16 vehicles, per annum, in future years.

Breathing Apparatus Replacement Programme

4.7 There is an operational need to harmonise the breathing apparatus equipment between Somerset (Scott Sabre) and Devon (InterSpiro) and a full business case has been developed to consider the most appropriate and cost effective options. The programme for 2012/13 indicated that an estimated £1.4m would be required for the harmonisation Breathing Apparatus (BA) equipment in 2013/14.

4.8 However, again recognising the financial constraints on the Capital Programme, the purchase of BA has been slipped to 2014/15 subject to future decisions regarding "4G" technology which supports the use of telemetry and understanding the consequences, the next Comprehensive Spending Review may have on future operational arrangements. This position will be reviewed in 12 months' time. The figure for the purchase of BA has also been revised to £0.884m reflecting the outcome of the Business Case.

5. REVISED CAPITAL PROGRAMME FOR 2013/14 – 2015/16

5.1 Appendix A provides an analysis of the proposed programme for the three years 2013/14 to 2015/16 as contained in this report. This programme represents a decrease in spending of £2.5m over the previously agreed programme as illustrated in Figure 1 below.

	Estates £m	Fleet & Equipment £m	Total £m
EXISTING PROGRAMME			
2012/2013	7.7	2.9	10.6
2013/2014	1.7	4.1	5.8
2014/2015	1.7	2.1	3.8
2015/2016 (provisional)	1.7	2.3	4.0
Total 2012/13 to 2015/16	12.8	11.4	24.2
PROPOSED PROGRAMME			
2012/2013 (forecast spending)	4.4	1.5	5.9
2013/2014	2.5	2.5	5.0
2014/2015	2.0	3.7	5.7
2015/2016	1.7	3.4	5.1
Total 2012/13 to 2015/16	10.6	11.1	21.7
PROPOSED CHANGE	**-2.2**	**-0.3**	**-2.5**

Figure 1

5.2 The schedule in Appendix A also provides indicative capital requirements beyond 2015/16 up to 2018/19.

5.3 Appendix B provides a summary of the Prudential Indicators associated with this level of spending over this period. It is forecast that total external debt will have increased from current levels of £27m to £36m by 2018/19. Figure 2 below provides further analysis for each year.

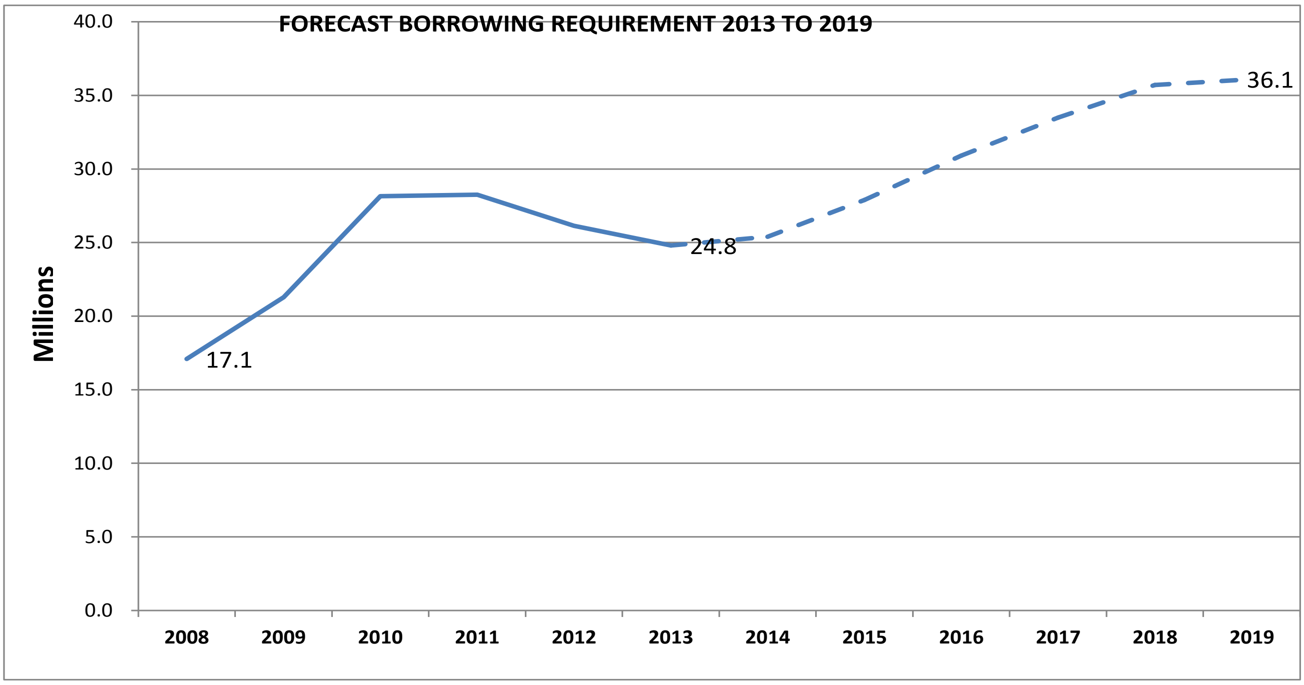


Figure 2

5.4 The estimated debt charge emanating from this revised spending profile is illustrated in Figure 3. These amounts are included in the 2013/14 revenue budget proposal and Medium Term Financial Plan 2013/14 to 2017/18.

<u>Summary of Estimated Capital Financing Costs</u>

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Base budget for Capital Financing costs Debt charges and operating leasing rentals	4.753	4.625	4.398	4.660	4.848	5.206	5.535
Change over previous year		-0.128	-0.227	0.262	0.188	0.358	0.329
Debt ratio	***3.71%***	***3.76%***	***3.81%***	***4.43%***	***5.08%***	***5.65%***	***6.17%***

Figure 3

5.5 The forecast figures for external debt and debt charges beyond 2015/16 are based upon the indicative programmes as included in Appendix A for the years 2016/17 to 2018/19, and exclude any additional income from the Commercial Trading Arm which has been agreed will be utilised to fund capital spending during this period. The affordability of these programmes will need to be subject to annual review based upon the financial position of the Authority at the time given that the next CSR announcement is expected to announce further significant reductions in our revenue funding over this same period.

6. PRUDENTIAL INDICATOR

6.1 The reducing revenue budget impacts significantly upon the borrowing capacity of this Authority. Whilst the programme now presented maintains borrowing within 5% to 2015/16, it does come with a risk that this could be breached from 2016/17 onwards albeit that the Service considers it has measures in place to mitigate against this. Previous Capital programmes and the borrowing profile has been reasonable and affordable.

6.2 The Treasurer has reported previously that the borrowing profile for 2012/13 at £33m was not excessive for this Authority, given the size of our asset portfolio. Reducing the programme for the next three years however, keeps the consequences of borrowing below 5% and reduces the Service debt exposure to £31m by 2015/16.

6.3 The LRP project is now planned to be rolled out over 6 years and the prudential indicator has been profiled beyond 2015/16 to reflect the on-going impact. This is mainly to provide reassurance that the replacement programme for vehicles keeps the overall programme within 5% for the first three years.

6.4 Whilst the budget for Estates has been increased in recent years, this has been for specific projects, such as the Training Academy at Exeter Airport. It has been reported previously that the Authority has a property portfolio that requires significant investment, with a backlog of some £16m. Whilst reducing this budget for one year will assist pump priming the introduction of the LRP and stabilise the backlog of for Medium Rescue Pump (MRP – the more traditional size appliance) replacement, the moratorium will have a significant impact on Service fire stations and difficulty in maintaining these properties with a reducing revenue budget.

7. CONCLUSION

7.1 This report emphasises the difficulties in meeting the full capital expenditure requirement for the Service, given the geographical size, number of fire stations and fire appliances required to be maintained and eventually replaced. The Committee has been advised over recent years of the difficulties in maintaining a programme that is affordable within the 5% Prudential Indicator. The consequence of a reducing revenue budget and the impact on borrowing limits was reported to the Authority last year when it was also indicated that it was becoming increasingly likely that, in light of these factors, the Authority may need to breach the 5% ceiling at some point in the future. While the Service has proposed a programme that maintains expenditure within current limits at present, the risk of breaching the 5% ceiling from 2016/17 is also indicated.

7.2 It is very disappointing that the Service capital bid of £4.760m was not successful as this would have provided much needed funding to enable the roll out the LRP programme as planned. The roll out is now planned over a 6 year period which will help to keep within the 5% limit over the next 3 years. As is indicated in this report, however, the ability to address the significant capital investment needs of the Service and keep within the limit is becoming increasing difficult. Indications are that there is a risk this limit is breached by 2016/17 (5.08%). It is, however, anticipated that profits from commercial activities will be used to mitigate this risk beyond 2015/16.

7.3 The impact of restricting borrowing will affect many aspects of this Authority, the general maintenance of the current building stock in particular which has returned to pre-2009 levels and the opportunity to harmonise BA equipment in support of firefighter safety.

7.4 The proposed capital programme for 2013-14 to 2015-16 as set down in Appendix A limits future spending whilst providing some funding towards reducing the fire appliance replacement backlog. The programme is therefore recommended for approval.

TREVOR STRATFORD **Director of Service Support**	**KEVIN WOODWARD** **Treasurer**

Capital Programme (2013/14 to 2017/18)

2012/2013 Revised Programme (£000)	2012/2013 Predicted outturn (£000)	Item PROJECT	PROPOSED PROGRAMME 2013-14 TO 2015-16 2013/14 (£000)	2014/15 (£000)	2015/16 (£000)	INDICATIVE PROGRAMME 2016-17 TO 2018-19 2016/17 (£000)	2017/18 (£000)	2018/19 (£000)
		Estate Development						
92	77	SHQ major building works	15					
3,284	2,184	Major Projects - Training Facility at Exeter Airport	1,100					
		Minor improvements & structural maintenance	300	2,050	1,750	1,750	1,750	1,750
15	15	Welfare Facilities						
105	105	USAR works						
343	343	Minor Works slippage from 2010-11						
1,674	1,063	Minor Works slippage from 2011-12	566					
2,140	530	Minor Works slippage from 2012-13	530					
52	52	STC ship structure						
7,705	4,369	**Estates Sub Total**	2,511	2,050	1,750	1,750	1,750	1,750
		Fleet & Equipment						
		Appliance replacement	1,015	2,480	3,125	2,480	2,480	1,395
		Specialist Operational Vehicles				400	400	
177	177	Vehicles funded from revenue						
242	91	Equipment	451	1,184	300	300	300	200
889	648	Appliance & Specialist Operational Vehicle slippage 2011-12						
1,620	599	Appliance & Specialist Operational Vehicle slippage 2012-13	1,021					
2,928	1,515	**Fleet & Equipment Sub Total**	2,487	3,664	3,425	3,180	3,180	1,595
10,633	**5,884**	**SPENDING TOTALS**	**4,998**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**
		Programme funding						
4,179	602	Main programme	2,428	4,316	5,175	4,930	4,930	3,345
4,433	3,261	Revenue funds	1,172					
2,021	2,021	Grants	1,398	1,398				
10,633	**5,884**	**FUNDING TOTALS**	**4,998**	**5,714**	**5,175**	**4,930**	**4,930**	**3,345**

PRUDENTIAL INDICATORS

	2013/14 £m estimate	2014/15 £m estimate	2015/16 £m estimate	2016/17 £m estimate	2017/18 £m estimate	2018/19 £m estimate
Capital Expenditure						
Non - HRA	4.998	5.714	5.175	4.930	4.930	3.345
HRA (applies only to housing authorities						
Total	4.998	5.714	5.175	4.930	4.930	3.345
Ratio of financing costs to net revenue stream						
Non - HRA	3.76%	3.81%	4.43%	5.08%	5.65%	6.17%
HRA (applies only to housing authorities	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000	£000
Non - HRA	25,395	27,873	30,940	33,462	35,734	36,153
HRA (applies only to housing authorities	0	0	0	0	0	0
Other long term liabilities	1,532	1,509	1,444	1,374	1,299	1,209
Total	26,927	29,382	32,384	34,836	37,033	37,362
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000	£000
Non - HRA	537	2,455	3,002	2,450	2,195	327
HRA (applies only to housing authorities	0	0	0	0	0	0
Total	537	2,455	3,002	2,450	2,195	327
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p	£ p	£ p
Increase/(decrease) in council tax (band D) per annum	-£0.49	-£1.27	-£1.04	N/A	N/A	N/A

PRUDENTIAL INDICATORS - TREASURY MANAGEMENT

Authorised Limit for external debt	£000	£000	£000	£000	£000	£000
Borrowing	32,210	34,856	37,281	37,826	38,890	39,697
Other long term liabilities	1,521	1449	1371	1278	1177	1070
Total	33,731	36,305	38,652	39,104	40,067	40,767
Operational Boundary for external debt	£000	£000	£000	£000	£000	£000
Borrowing	30,940	33,462	35,734	36,153	37,103	37,889
Other long term liabilities	1,444	1,374	1,299	1,209	1,112	1,010
Total	32,384	34,836	37,033	37,362	38,215	38,899

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2012/13		
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	50%

DEVON & SOMERSET FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**RC/13/4**
MEETING	**RESOURCES COMMITTEE**
DATE OF MEETING	**4 FEBRUARY 2013**
SUBJECT OF REPORT	**2013-2014 REVENUE BUDGET AND COUNCIL TAX LEVEL**
LEAD OFFICER	**Treasurer and Chief Fire Officer**
RECOMMENDATIONS	***That the Committee consider the contents of this report with a view to recommending to the budget meeting of the Devon and Somerset Fire and Rescue Authority on 18 February 2013, an appropriate level of revenue budget and council tax for 2013-14.***
EXECUTIVE SUMMARY	It is a legislative requirement that the Authority sets a level of revenue budget and council tax by the 1 March each year. This report includes three potential options A to C for revenue budget and council tax levels for 2013-14. The Committee is asked to consider the implications associated with each option, with a view to making a recommendation of one option to the full Authority budget meeting on 18 February 2013.
RESOURCE IMPLICATIONS	As indicated in the report.
EQUALITY BENEFITS AND RISKS ANALYSIS (ERBA)	Not applicable
APPENDICES	A. Draft Revenue Budget 2013-2014. B. Letter of Representation sent to the CLG regarding the Provisional Local Government Finance Settlement. Precept C. Consultation Report (enclosed and page numbered separately with the agenda for this meeting).
LIST OF BACKGROUND PAPERS	Nil.

1. INTRODUCTION

1.1 It is a legislative requirement that the Authority sets a level of revenue budget and council tax for the forthcoming financial year, before 1 March, in order that it can inform each of the fifteen council tax billing authorities within Devon and Somerset of the level of precept required from the Authority for 2013-2014. The purpose of this report is to provide the necessary financial background for consideration to be given as to what would be appropriate levels for the Authority.

1.2 The Localism Act 2011 includes new provisions which require an authority to hold a council tax referendum where an authority's council tax increase in 2013-2014 exceeds the council tax "excessiveness principles" applied for that year. These new rules replace the previous capping regime where the government would impose a cap on council tax increases.

1.3 The Secretary of State has proposed the council tax principles he is minded to set for 2013-2014. These are that, except those fire and rescue authorities in the lower quartile of Band D council tax levels, who can set an increase up to a maximum of £5, all other fire and rescue authorities will be required to seek the approval of the local electorate in a referendum if, compared with 2013-2014, they set a council tax increase that exceeds 2.0%:

1.4 Given that the administration costs associated with holding a local referendum for one year are estimated to be in the region of £2.3m, this report does not include any proposals beyond 2.0%. Instead it considers three options, A to C below, of which the maximum proposed increase is 2.0%.

OPTION A – Freeze council tax at 2013-14 level (£73.92 for a Band D Property).

OPTION B – Increase council tax by 1.0% above 2013-14 (£74.66).

OPTION C – Increase council tax by 2.0% above 2013-14 (£75.40).

1.5 The Committee is asked to consider each of these options with a view to making a recommendation of one option to the Fire and Rescue Authority meeting to be held on the 18 February 2013.

2. COMPREHENSIVE SPENDING REVIEW 2010 (CSR 2010)

2.1 Members will be well aware of the economic background which has led to the government announcing its plans to reduce the national structural deficit. The Comprehensive Spending Review (CSR) in October 2010 provided specific details of how public spending would be reduced over the four year period 2012-13 to 2014-15, including significant reductions in local authority grants over this period.

2.2 For fire and rescue authorities, CSR 2010 announced reductions in government grants of 25% by 2014-15, representing a real terms reduction in spending of 13% by 2014-15, bearing in mind that, on average, government grant funding represents 50% of total fire and rescue spending.

2.3 A 25% reduction in government grants obviously represents a significant reduction in future funding streams and requires fire and rescue authorities to put plans in place to deliver significant reductions in spending over the CSR 2010 period. The Fire Service has, however, been provided with some protection as, unlike other local authorities, the reductions have been weighted so that they are back-loaded to 2013-14 and 2014-15 to give fire and rescue authorities time to implement changes without affecting the quality and breadth of service to communities.

3. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2013-14 AND 2014-15

3.1 The provisional 2012 Local Government Finance Settlement, announced in late December 2012, provided local authorities with individual formula funding allocations for the two financial years 2013-14 and 2014-15. It should be noted that as a result of significant changes to the local government finance system to be introduced in 2013-14 around the new Business Rates Retention Scheme, the new terminology attached to settlements is "Formula Funding", which replaces the previous "Revenue Support Grant".

3.2 For fire and rescue authorities (FRAs) the average reductions in formula funding are -8.9% in 2013-14 and a further -7.5% in 2014-15, consistent with the government commitment that the larger reductions in Fire funding are back-loaded to 2013-14 and 2014-15.

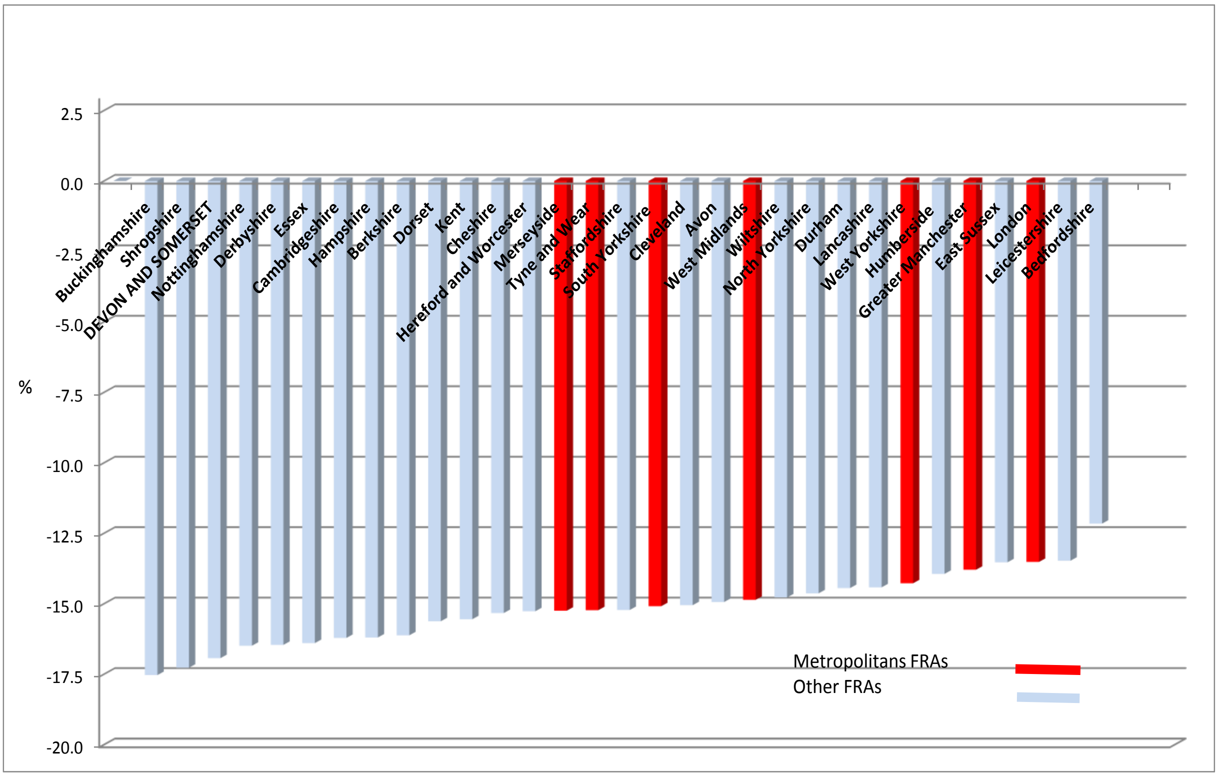
Impact of Provisional Grant Settlement to Devon and Somerset FRA

3.3 The changes in formula funding see for this Authority a reduction in 2013-14 of -10.3% over 2012-13, and a further reduction of -7.3% in 2014-15 over 2013-14. Table 1 below provides a summary of the grant allocations.

TABLE 1 – FORMULA FUNDING FIGURES FOR DSFRA	**£m**	**%**
Formula funding 2013-14	29.211	
Reduction over 2012-13	**-3.373**	**-10.3%**
Formula Funding 2014-15	27.069	
Reduction over 2013-14	**-2.142**	**-7.3%**

3.4 Over the two years these allocations result in a reduction in funding of -£5.5m by 2014-15, equivalent to -17.6%. Chart 1 overleaf provides an analysis of changes in formula funding for all FRA's over these two years.

CHART 1 – ANALYSIS OF CHANGES IN FRA FORMULA FUNDING 2012-13 TO 2014-15



3.5 Chart 1 above illustrates that this Authority has suffered the third worst settlement of all FRAs over the two years. This is very surprising given that in the previous settlement, in 2010, we had the third best settlement, and that the formula used to distribute fire formula funding for 2013-14 now includes a sparsity factor for the very first time. Given that Devon and Somerset provides fire and rescue cover over the largest geographical area in the country, this Authority should have been the biggest gainer from the inclusion of the sparsity factor. It would appear, however, that other changes in the formula have worked against us. I have written a letter to the CLG expressing our disappointment with the provisional settlement and seeking a review of the settlement in time for the final settlement announcements next month. A copy of this letter is attached as Appendix B.

4. REQUIREMENT TO HOLD A LOCAL REFERENDUM FOR EXCESSIVE COUNCIL TAX INCREASES

4.1 Members will be aware of the new rules introduced last year which would require the Authority to hold a local referendum should it propose to increase council tax beyond a government set limit (principles). A referendum would need to be held on our behalf by all of the billing authorities in Devon and Somerset by May of the financial year in question. The administrative costs associated with holding such a referendum would have to be funded by the Authority.

4.2 If the referendum results in a ‘yes’ vote then the increase will stand, however, if a ‘no’ vote is the outcome then the Authority will need to revert to a council tax increase limited to the government set limit. This means that, in such circumstances at the budget meeting, two budgets will need to be considered, the budget at the excessive council tax level, and a second “shadow budget” based on the government set limit for council tax increases.

4.3 Given that Band D council tax figures for fire and rescue authorities are relatively low, typically only 4% of the total council tax bill, we have argued with the Department of Communities and Local Government (CLG), that fire and rescue authorities should be exempt from this requirement as the costs associated with holding a referendum are disproportionate to the amount of additional precept gained from any increase. For this Authority the position is exacerbated by the fact that it has fifteen billing authorities that would be required to hold referendums on its behalf, resulting in estimated referendum costs in the region of £2.3m. It is felt that, rather than applying a percentage increase, a cash amount could be used for fire and rescue authorities.

4.4 The government has shown that it is sympathetic to this suggested approach as for 2013-14 it has exempted a small number of fire and rescue authorities, along with some district councils and police authorities, from a percentage limit and replaced it with a £5 cash increase. Only those authorities in the lower quartile of their authority type in terms of the size of Band D council tax have been exempted, however, which does not include this Authority.

4.5 For 2013-14, the Secretary of State has announced that the referendum limit has been set at 2.0%. Given the high costs associated with holding a local referendum this report does not recommend any proposal to increase council tax beyond 2.0%, which I do not believe would represent a good use of taxpayers' money.

5. COUNCIL TAX AND BUDGET REQUIREMENT 2013-2014

Council Tax

5.1 Members will be aware that the government has again laid out its expectations that local authorities should freeze council tax in 2013-14 and to encourage this has again announced that it will pay a further Council Tax Freeze Grant to those authorities that set a zero per cent increase in council tax for 2013-14. This grant will be equivalent to an increase in council tax of 1.0%, estimated to be £0.459mm (subject to confirmation of council tax base for 2013-14) for this authority.

5.2 It is important to recognise, however, that the government has announced that this grant will be payable in 2013-14 and 2014-15 only, which means that if accepted further on-going savings would need to be identified in 2015-16 to replace this loss of grant income.

5.3 It is of course still an Authority decision to set a level of council tax that is appropriate to its funding position, and indeed it is voluntary as to whether the Authority agrees to accept the grant available. As Members will be aware, whilst the Authority agreed to freeze council tax in 2011-12 and take the reward grant of £1.099m (equivalent to 2.5% increase in CT), last year in setting the council tax for 2012-13 it decided to ignore the grant and increase council tax by 3.0%. The decision not to take the grant was largely taken because the grant of £1.3m that the Authority would have received would be payable in 2012-13 only, whilst the decision to increase council tax by 3.0% meant that the exact same sum of £1.3m is now in the Authority's base funding for all future years. If the Authority had decided to take the grant last year, then, in addition to the reduction in Formula Funding of £3.4m, as reported in paragraph 3.3 of this report, the budget for 2013-14 would have to manage a further £1.3m loss of government funding.

5.4 For 2013-14, therefore, the Authority has to decide whether it wishes to freeze council tax, and if not, decide on what level of increase is appropriate. Each 1% increase in council tax represents a £0.74p increase for a Band D property, and is equivalent to a £0.407m variation on the revenue budget. This report considers three options:

OPTION A – Freeze council tax at 2012-13 level (£73.92 for a Band D Property).

OPTION B – Increase council tax by 1.0% above 2012-13 (£74.66).

OPTION C – Increase council tax by 2.0% above 2012-13 (£75.40).

5.5 Each of the options will result in a reduction in the amount of revenue funding for 2013-14. Table 2 below provides a summary of the reduction associated with each option.

TABLE 2 – OPTIONS FOR COUNCIL TAX CHANGE – INCREASE IN SPENDING POWER OVER 2012-13

	OPTION A Council Tax Freeze at £73.92 £m	OPTION B Council Tax Increase of 1.0% to £74.66 £m	OPTION C Council Tax Increase of 2.0% to £75.40 £m
TOTAL FUNDING 2012-13	**78.677**	**78.677**	**78.677**
Reduction in Formula Funding	-3.373	-3.373	-3.373
Council Tax Support Grant (New)	5.624	5.624	5.624
Changes in Council Tax Precept			
- changes in Council Tax Base resulting from introduction of local Council Tax Benefit System and increase in number of properties	-4.958	-4.958	-4.958
- resulting from an increase in Band D Council Tax	-	0.407	0.813
Reduction in Share of Billing Authorities Council Tax Collection Funds	-0.094	-0.094	-0.094
2013-14 Council Tax Reward Grant	0.459	-	-
TOTAL FUNDING AVAILABLE 2012-2013	**76.335**	**76.283**	**76.689**
REDUCTION IN SPENDING POWER	**-2.342**	**-2.394**	**-1.988**

5.6 The impact of each of the options over 2012-13 is summarised below:

- **Option A** offers the second largest reduction in spending power in 2013-14 -2.342m, and the reward grant of £0.459m will be removed in 2015-2016 as the grant is payable in 2013-14 and 2014-15 only.

- **Option B** offers the largest reduction in spending power in 2013-14 -2.394m however this amount available from the 1% increase in council tax of £0.407m would be built into base and will therefore be available for the Authority to spend in all future annual budgets.

- **Option C** offers the smallest reduction in spending power in 2013-14 -1.988m and the amount available from the 2% increase in council tax of £0.817m would be built into base and will therefore be available for the Authority to spend in all future annual budgets.

5.7 It should be noted that, at the time of writing this report, the figures in Table 2 can only be regarded as provisional. This is due to the fact that the final Local Government Finance Settlement has not yet been announced (anticipated mid-February) and the council tax base figures and declaration of surpluses/deficits on council tax collection funds from the fifteen billing authorities in Devon and Somerset are still to be approved by their relevant authorities. It is therefore possible that some changes will be made which would result in a change to the total funding available for 2013-14. The budget report to the Fire and Rescue Authority meeting on the 18 February will include the impact of any such changes.

Net Budget Requirement

5.8 Table 3 below provides a summary of a proposed revenue budget for 2013-14 on the basis of setting the budget at £76.689m i.e. Option C. A breakdown of the more detailed items included in this draft budget are included in Appendix A.

5.9 *It should be emphasised that whilst this Table includes a draft budget on the basis of Option C, this is for presentation purposes only. Should the Committee decide to approve Options A or B, then officers will need to take a view as to which budget heads would need to be reduced to accommodate the reduction in budget required.*

TABLE 3 – SUMMARY OF CORE REVENUE BUDGET REQUIREMENT 2013-2014	**£m**	**%**
Approved Net Revenue Budget Requirement 2012/2013	78.677	
PLUS Provision for pay and price increases (items 1 to 4 included in Appendix A to this report)	0.869	*+1.1%*
MINUS One-off investments in 2012-13 (items 5 to 9 included in Appendix A to this report)	(4.102)	*-5.2%*
PLUS Inescapable Commitments (items 10 to 16 included in Appendix A to this report)	1.201	*+1.5%*
PLUS Invest-to-Save Items (items 17 to 20 included in Appendix A to this report)	1.712	*+2.2%*
CORE SPENDING REQUIREMENT 2013-2014	**78.357**	
MINUS Budget Savings (items 18 to 20 included in Appendix A to this report)	(1.668)	*-2.1%*
NET REVENUE BUDGET REQUIREMENT 2013-2014	**76.689**	
REDUCTION IN BUDGET OVER 2012-2013 (£m)	**(1.988)**	***-2.5%***

Invest-to-Save Items

5.10 The Authority has recognised the need to invest in introducing new capabilities that will allow us to provide better service at less cost. The potential for technology to transform the Service is immense and investment in this area is a cornerstone of the Service strategy to change the way it works allowing it to manage in the future with fewer people. An amount of £0.846m is included in the invest-to-save total allowing the Service to:

- replace or upgrade end of life systems such as Training Records and Workforce (HR);
- introduce new systems to replace paper based manual processes such as Accident Reporting;
- pilot the replacement of paper records with an Electronic Document Records Management System; and
- enhance our recently acquired middleware technology to improve the development and testing capabilities.

In addition, there is an amount of £0.356m for other business support initiatives such as procurement and process improvement. The sum total of the business support initiatives will deliver an estimated annual budget saving of £1.615m by 2016/17. Also included in the invest-to-save element is an amount of £0.408 to run the Light Rescue Pumps Project and the Fire-Control Project, together with other work that supports the development of the Corporate Plan proposals.

Budget Savings

5.11 As is indicated in Table 3, the Core Budget Requirement for 2013-14 (which includes provision for pay and inflation) inescapable commitments and new investment has been assessed as £78.357m. This is more than the amount of funding available under Option C i.e. £76.689m, and therefore budget savings of £1.668m are required in order that a balanced budget can be set. It is proposed that these savings are achieved from three areas:

- **Budget Management Savings (£1.082m)** – As is reported elsewhere on the agenda to this report within the 2012-13 Financial Performance Report Quarter 3, all budget holders across the organisation had been tasked with identifying in-year budget savings within their area of budget responsibility. In addition, budget holders were also tasked with identifying on-going savings from 2013-14 to contribute towards the budget deficit. This exercise has identified an amount of £1.082m to be delivered in 2013-14 from a range of non-operational budget heads.
- **Business Support Changes (£0.150m)** – Changes to be delivered to business support functions during 2013-14 e.g. investment in new technology will result in the delivery of efficiency savings in 2013-14, estimated to be £0.150m.
- **Vacancy Management (£0.436m)** – A reduction in salary budgets of £0.436m to reflect savings to be achieved from the natural turnover of staff e.g. retirements during 2013-14. This would be in addition to the £0.150m already taken out in 2012-13 increasing the total vacancy management saving to be achieved in 2013-14 to £0.586m.

6. MEDIUM TERM FINANCIAL PLAN

6.1 As is stated earlier in this report the Local Government Grant Settlement has provided details of formula funding for the next two years 2013-14 and 2014-15, which has reduced this Authority's funding allocation by £5.5m by 2014-15.

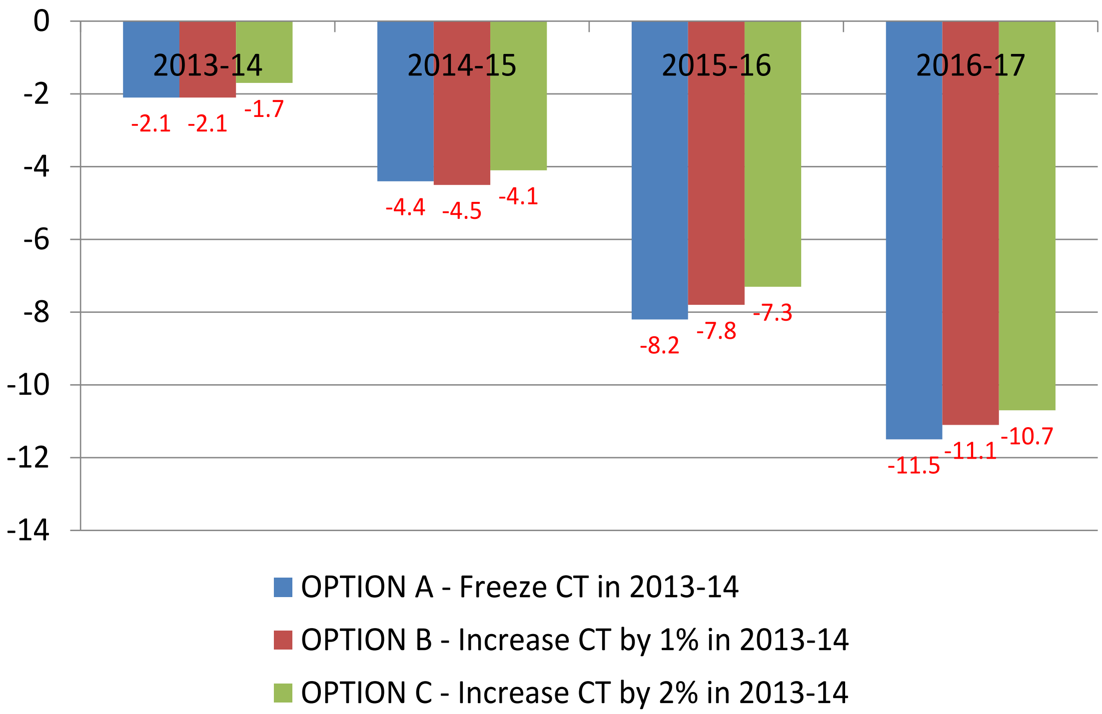
6.2 Looking beyond 2014-15, the Chancellors' Autumn Statement in December 2012 has confirmed that the austerity measures to reduce the structural deficit will need to continue for at least three years beyond 2014-15 i.e. until 2018. The next CSR announcement is expected to be made during the first half of 2013 which, in particular, will inform government department control totals for 2015-16. This will inevitably mean that in addition to the £5.5m of reductions already suffered further significant reductions must be planned for beyond 2014-15.

6.3 Clearly it is difficult to provide forecasts into future years with absolute certainty, particularly in relation to future pay awards, inflationary increases and changes in pension costs. Key assumptions have therefore had to be made in our forecasts which will inevitably be subject to change. Prudent forecasts of future budgets can, however, be used to refresh the Authority's Medium Term Financial Plan (MTFP) to inform financial planning and provide updated forecasts of the levels of budget reductions required by 2016-17 to balance the budget.

7. PLANS TO ACHIEVE BUDGET REDUCTIONS 2013-14 TO 2016-17

7.1 The MTFP financial modelling tool has assessed a likely 'base case' scenario in terms of savings required over the period 2013-14 to 2016-17. Chart 2 below provides an analysis of those forecast savings required in each year based upon each of the Options A to C contained in this report.

CHART 2 – FORECAST BUDGET SAVINGS (CUMULATIVE) 2013 TO 2017 (BASE CASE) - £MILLIONS



7.2 As is illustrated in Chart 2, based on Option C (2% increase in CT), the budget savings required in 2013-14 are -£1.7m. This saving requirement would rise to -£2.1m if either Options A (CT freeze) or B (1% increase) are agreed. This budget report proposes how required savings of -£1.7m are to be delivered in 2013-14 in order that a balanced budget can be set. Should the Committee decide to recommend Options A or B, then officers will need to take a view as to which budget heads would need to be reduced to accommodate a reduction of -£0.4m in budget.

7.3 If the Authority is minded to opt for Option A then it should be emphasised that the amount of budget savings estimated beyond 2014-15 will be exacerbated by the removal of the CT reward grant in 2015-16. This option would require estimated savings of -£8.2m in 2015-16, as compared to an estimated figure of -£7.3m if council tax is increased by 2.0%.

Corporate Plan 2013-14 to 2014-15

7.4 This budget report proposes a balanced budget for the next financial year 2013-14 including proposals as to how £1.7m of budget savings can be achieved. Looking ahead to 2014-15, as is illustrated in Chart 2, the forecast savings requirement increases to £4.1m (based on Option C).

7.5 The Corporate Plan for 2013-14 to 2014-15 was agreed at the extraordinary Fire and Rescue Authority meeting held on 18 January 2013 and is now subject to a twelve week consultation period, before being considered by the Authority in June/July of 2013. In terms of planning and lead in times it is essential that proposals for the delivery of savings in 2014-15 are agreed well in advance in order that the Authority has the confidence that it will be in a position to set a balanced budget in 2014-15.

7.6 The Plan includes a range of proposals which, if agreed, will deliver savings of £6.8m in total. It is recognised, however, that this sum will not be deliverable by 2014-15 as the speed at which it can be delivered will be dependent on the natural turnover of staff during the next two years. Should this turnover not meet required levels then the Authority will need utilise reserve balances in 2014-15 to meet any shortfall.

7.7 Delivery of savings beyond 2014-15 (forecast to be in the region of £11m by 2016-17) will need to be subject to a further range of proposals to be considered by the Authority well in advance of 2015 once further clarification has been received of our funding levels from 2015-16.

8. PRECEPT CONSULTATION 2013-2014

8.1 Section 65 of the Local Government Finance Act (1992) requires precepting authorities to consult non-domestic ratepayers on its proposals for expenditure.

8.2 The consultation also included members of the public as it was deemed inappropriate not to include the public's views on the option of increasing Council Tax at a time of economic difficulty.

8.3 A telephone survey methodology was used as in previous years due to the short timescale to complete the research. The key specifications for the survey were:

- To ask 4 key question plus demographic information;
- To collect answers to both closed and open questions;

- To provide a representative sample of 400 business and 400 members of the public by constituent authority area (Devon County Council; Plymouth City Council; Somerset County Council; and Torbay Council).

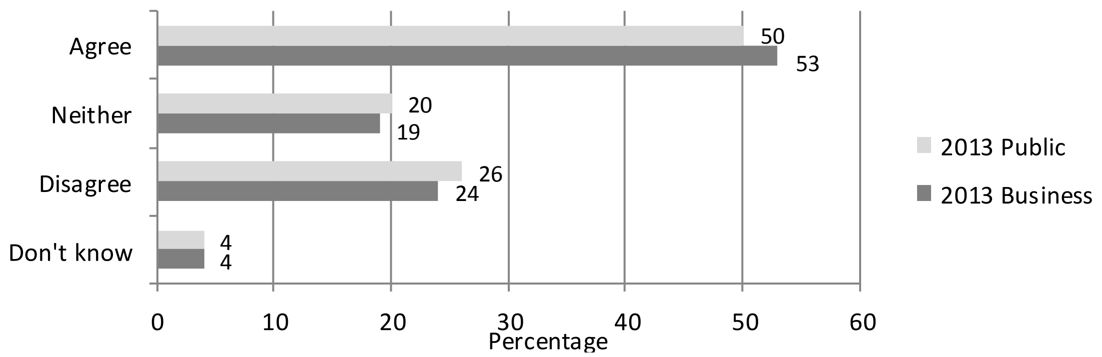
8.4 The survey commenced the week beginning Monday 7 January 2013 and was undertaken by BMG Research. Appendix C provides the full report of the results produced by BMG Research.

RESULTS

Question 1. How strongly do you agree or disagree that it is reasonable for the Authority to consider *increasing* its council tax charge for 2013/14 in order to limit the impact of the funding cuts on the levels of emergency service?

8.5 The results to Question 1 show that the results are very similar between the public and business samples demonstrating that the two groups hold similar views. The top line results in Graph 1 reveal that more business and public respondents agree than disagree that it is reasonable to consider increasing its Council Tax charge for 2013/14.

Graph 1: Business and public results as to whether they agree it is reasonable for the Authority to consider increasing its council tax charge for 2013/14



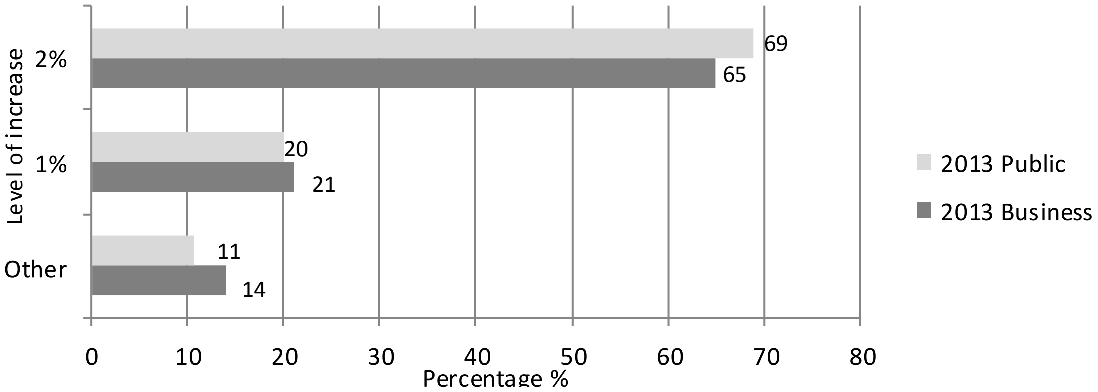
8.6 In the 2012 survey, 33% of business respondents and 30% of public respondents disagreed that it was reasonable for the Authority to consider increasing its Council Tax charge for 2013/14. The 2013 survey results, therefore, suggest that opinion has changed over the year with less respondents disagreeing.

8.7 Respondents who answered strongly agree or agree to Question 1 were asked:

Question 2. From the following, what level of increase would you consider it reasonable for the Authority to increase its element of the Council Tax charge by? Please give one answer only

8.8 The results to Question 2, shown in Graph 2, demonstrate that the support for increasing the Council Tax does not, as may be assumed, decline as the percentage increases. Instead the greatest level of support is for 2% this is consistent for both public and business responses.

Graph 2: The percentage level increase considered reasonable by respondents who agreed to Question 1

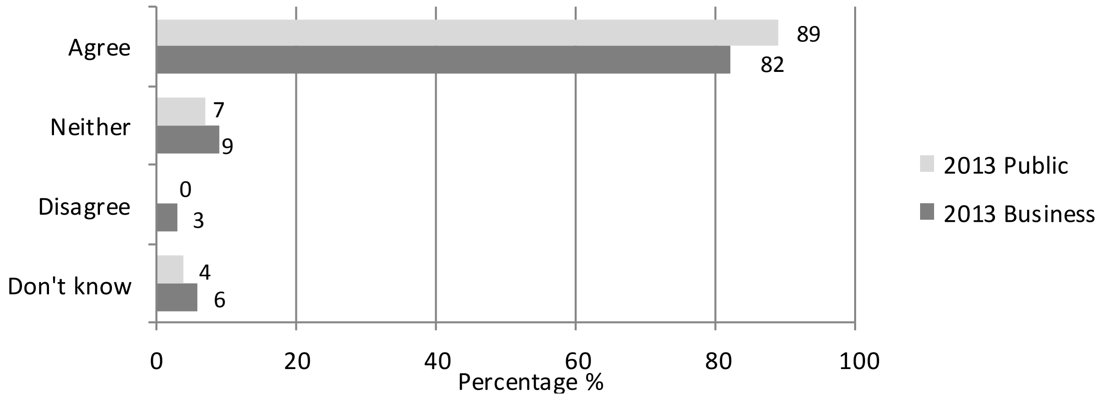


Question 3. How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?

8.9 A total cost of £47 per head of population was quoted to provide context for an assessment of value for money. In previous years' this question has referred to the total cost of running the service in terms of the Band 'D' Council Tax charge. It was considered that this may cause some confusion as the survey would contain two Band 'D' costs: the total cost of running the Service and the precept figure. The results in Graph 3 show that both public and business respondents agree that the Service provides value for money and that there is a higher level of agreement from members of the public.

8.10 In 2012, 84% of public respondents and 77% of business respondents agreed that the Service provided value for money. Therefore, the 2013 results suggest improvement with more respondents agreeing that the Service provides value for money.

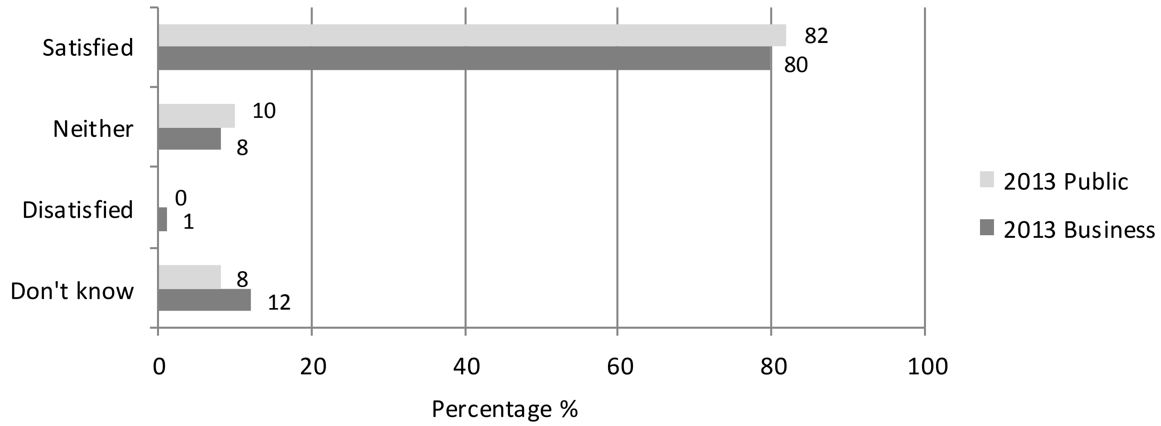
Graph 3: How strongly do you agree or disagree that Devon and Somerset Fire and Rescue Service provides value for money?



Question 3 How satisfied are you with the service provided by Devon and Somerset Fire and Rescue Service?

8.11 The results in Graph 4 show that there are high levels of satisfaction. The responses from business show a large increase in satisfaction over the 2012 results where 65% were satisfied compared with 80% in 2013. Public satisfaction was similar to the 81% satisfaction reported in 2012.

Graph 4: How satisfied are you with the service provided by DSFRS



‘ ***CONCLUSION***

8.12 In both cases, more members of the public and the business community agree than disagree that it is reasonable for the Authority to consider increasing its Council Tax precept for 2013/14. For those who agreed the Authority should consider increasing the level of precept the most support was for a 2% increase. Results from members of the public and business community show that respondents agree the Service provides value for money and are also satisfied with the service provided.

9. <u>RESERVES AND BALANCES</u>

9.1 In setting the revenue budget and council tax for 2013-2014, the Authority will also need to consider an appropriate level of financial reserves to be held to provide a financial contingency against any unforeseen expenditure that may arise during the course of 2013-2014. In making this assessment the Treasurer, as the Proper Officer for the purposes of Section 112 of the Local Government Finance Act 1988 (the equivalent provision, for combined fire and rescue authorities, of Section 151 of the Local Government Act 1972), has a duty to advise the Authority on his view as to the robustness of the budget and level of reserves recommended. This report will need to be considered at the budget meeting alongside decisions on the levels of budget and council tax.

9.2 At this time, the level of General Reserve is £4.873m, equivalent to 6.2% of the revenue budget. Elsewhere on the agenda for this meeting is a report monitoring the current year's revenue budget (RC/13/1). This indicates a projected underspend of £1.5m. Some of this figure may be available to be transferred to the General Reserve at the year end, however this will be dependent on the need for this sum to be utilised to fund emerging issues, e.g. potential costs from the Employment Tribunal case under the Part-Time Workers (Prevention of Less Favourable Treatment) Regulations 2000 which has ruled that retained firefighters should enjoy similar conditions of service to their wholetime colleagues. At the end of the financial year, once the 2012-13 final outturn position is known, the Authority will need to decide how any underspend is to be utilised.

9.3 In terms of a strategy for Reserve balances, the Authority has adopted an "in principle" strategy to maintain the level of reserves at a minimum of 5% of the revenue budget for any given year, with the absolute minimum level of reserves only being breached in exceptional circumstances, as determined by risk assessment. This does not mean that the Authority should not aspire to have more robust reserve balances based upon changing circumstances, but that if the balance drops below 5% (as a consequence of the need to utilise reserves) then it should immediately consider methods to replenish the balance back to a 5% level.

9.4 It is, of course, pleasing that the Authority has not experienced the need to call on reserve balances in recent years to fund emergency spending. This has enabled the balance, through budget underspends, to be increased to a level in excess of 5%. However, given the current economic climate and the resultant uncertainties about grant funding levels for the next CSR, it is my view that the Authority should seek to protect reserve balances, as much as possible, to provide added financial stability through this turbulent period.

9.5 It should also be emphasised that this Authority is placed in the lower quartile when compared to all fire and rescue authorities. The average reserve balance for all FRAs is 13.5% of revenue budget, with the Upper Quartile being 15.0% and Lower Quartile 8.0%. Consequently, even at 6.2% the Authority's reserve level would still be the fourth lowest of all combined fire and rescue authorities in the country, positioning the Authority at 29 out of 33.

10. SUMMARY

10.1 The Authority is required to set its level of revenue budget and council tax for 2013-2014 by 1 March so that it can meet its statutory obligation to advise each of the fifteen billing authorities in Devon and Somerset of the required level of precept for 2013-2014. This report provides Members with the necessary background information to assist them in making decisions as to the appropriate levels for Devon and Somerset FRA.

10.2 The report considers three potential options A to C and asks the Committee to consider the financial implications associated with each option with a view to recommending one of these options to the budget setting meeting of the full Fire and Rescue Authority, to be held on the 18 February 2013.

KEVIN WOODWARD
Treasurer

LEE HOWELL
Chief Fire Officer

DRAFT REVENUE BUDGET REQUIREMENT 2013-2014

(BASED ON OPTION C IN REPORT)

		£m	£m	%
	Revenue Budget 2012-2013		**78.677**	
	Provision for Pay and Prices			
1.	Uniformed Pay (assumed 1.0% from July 2013))	0.456		
2.	Non-Uniformed Pay (assumed 1.0% from April 2013)	0.102		
3.	Provision for prices increases (assumed CPI of 2.7%) plus additional allowance for fuel, utilities and non-domestic rates)	0.264		
4.	Provision for inflationary increase in pension costs.	0.047		
			0.869	*1.10%*
	One-off Provisions included for 2012-13 Budget only			
5	Revenue Contribution towards Exeter Airport capital scheme	(0.750)		
6	Revenue Contribution to Capital	(1.850)		
7	Refurbishment of Fire Control	(0.490)		
8	Change and Improvement Programmes	(0.936)		
9	Defibrillators on all fire appliances	(0.076)		
			(4.102)	*(5.21)%*
	Inescapable Commitments			
10	Reduction in debt charges from approved capital programme			
11	Pay increments and other pay changes	0.562		
12	Provision for additional employers pension contributions resulting from auto-enrolment legislation	0.336		
13	Increase in insurance premiums	0.164		
14	Additional provision for utilities and non-domestic rates costs	0.074		
15	Contribution to localised council tax benefit schemes	0.027		
16	Other minor changes (net)	0.038		
			1.201	*1.53%*
	Invest-to-Save Initiatives			
17	New Technology Projects	0.846		
18	Business Support Initiatives (including procurement and process improvement projects)	0.356		
19	Service Delivery Projects (Light Rescue Pumps, FireControl)	0.408		
20	Corporate Plan Programme – Governance Costs	0.102		
			1.712	*2.18%*
	Budget Savings			
21	Budget Management	(1.082)		
22	Business Support Changes	(0.150)		
23	Vacancy Management	(0.436)		
			(1.668)	*(2.12)%*
	TOTAL CHANGES (LINES 1–20)		**(1.988)**	**(2.52)%**
	DRAFT REVENUE BUDGET 2013-14		**76.689**	

Lee Howell
CHIEF FIRE OFFICER

Mr Andrew Lock
Communities and Local Government
Zone 5/J2 Ashdown House
Eland House
Bressenden Place
LONDON SW1E 5DU

SERVICE HEADQUARTERS
THE KNOWLE
CLYST ST GEORGE
EXETER
DEVON
EX3 0NW

Your ref :		Date :	15th January 2013	Telephone :	01392 872200
Our ref :		Please ask for :	Mr Woodward	Fax :	01392 872300
Website :	www.dsfire.gov.uk	Email :	kwoodward@dsfire.gov.uk	Direct Telephone :	01392 872317

Dear Mr Lock,

RESPONSE FROM DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY IN RELATION TO THE LOCAL GOVERNMENT FINANCE SETTLEMENT 2013-2014
I am writing to you on behalf of Devon and Somerset Fire and Rescue Authority to make representations in response to the settlement as it affects our authority's funding.

Firstly, the Authority welcomes the fact that the fire formula funding now includes, for the first time, a fire and rescue sparsity adjustment to provide an element of recognition to the disproportionate costs of providing fire cover in a more rural area. As your department will be aware, we have been asking for this for a very long time, and it is pleasing therefore that your officials have finally been convinced of the argument.

However, we are extremely disappointed to find that, even with this inclusion, we find ourselves with the third worst settlement of all fire and rescue in England for 2013-14. Your own figures, as included in the Business Rates Retention – Technical Document issued in July 2012, indicated that Devon and Somerset FRA would be the biggest gainer of all from the inclusion of a fire and rescue sparsity adjustment, with an additional £0.9m (2.9%) of grant funding. We are therefore perplexed to find that our total reduction in formula funding (-10.3% in 2013-14) is more than the reductions suffered by the metropolitan authorities (average of -8.2%).

We are also very disappointed that we have been unsuccessful in our capital bid which would have enabled us to push ahead with our plans to introduce Light Rescue Pumps (LRP's) across the Service over the next four years. As our bid indicated, this initiative would deliver significant efficiency savings and we are therefore very surprised that no funding has been made available to us from the capital efficiency bid process. On his visit to Taunton Fire Station on 6th December 2012 the Fire Minister saw for himself one such vehicle and seemed very impressed with the innovation associated with this project.

We provide below five specific issues that we wish to make representations on;

1) As is stated above we welcome the new inclusion of a sparsity adjustment in the fire and rescue formula used to distribute formula funding. For many years we have challenged the inequitable formula distribution which included little recognition of the disproportionate costs of providing fire and rescue cover over a rural area. The fact that this adjustment was not included much earlier has meant that previous settlements have not reflected these costs meaning rural authorities have for many years not received their fair share of formula grant resulting in significant amounts of grant being lost. This has led to more grant being distributed to the more urban areas. This is illustrated by looking at grant per head of population for urban and rural authorities :

   2013-2014 Average formula funding per head = £18.30

Urban Authorities	
Cleveland	£31.76
London	£28.61
Merseyside	£26.73
Rural Authorities	
Hereford and Worcester	£12.72
Wiltshire	£12.13
Dorset	£13.27
Devon and Somerset	*£16.64*

   If Devon and Somerset were to receive the average grant per head this would provide additional grant funding of £3m in 2013-14.

   What Devon and Somerset FRA is seeking: *We ask that the 2013-14 distribution be re-assessed to ensure that your commitment to provide further financial recognition to rural fire and rescue authorities is honoured. If your department is not prepared to do this we ask for an explanation as to why, when our 2013-14 grant now includes recognition for sparsity (£0.9m by your own figures) our overall grant reduction in 2013-14 is the third worst of all fire and rescue authorities in England. We have asked the Technical Support Team within the Society of County Treasurers to carry out a piece of work on our behalf to analyse our settlement and advise us why we have moved from third best to third worst, only to hear from them that it is virtually impossible now to quantify how each formula change has effected allocations as each change within the formula does not have a cumulative effect.*

2) We are very concerned that further grant reductions to come from 2015-16 will be applied evenly across all fire and rescue authorities which would put a disproportionate burden on rural authorities whose ability to deliver significant savings from changes in crewing arrangements and shift patterns is much more restricted given the reliance on the Retained Duty System. For instance here in Devon and Somerset we have only fifteen stations out of eighty five that operate any wholetime cover. An expectation that rural FRAs are to deliver the same proportion of cuts as the urban FRAs will have a disproportionate impact on those rural FRAs.

What Devon and Somerset FRA is seeking: *We ask for a meeting with the Fire Minister, prior to the next spending review in 2013, to seek assurances that the next round of cuts are not applied evenly across all FRAs which would have a disproportionate impact on those rural FRAs who have much more limited ability to deliver significant savings from changes in crewing arrangements and shift patterns.*

3) We are very disappointed that our application against the capital bidding process has been unsuccessful. We have been working up an innovative project to deliver 70 smaller type of fire appliance (LRPs) across the service over the next four years. The Minister saw one of these appliances himself on his visit to Taunton Fire Station on the 6th December and seemed very impressed with what he saw. This is a £7.5m project which would deliver significant benefits both cashable and environmental when compared to procurement of current type appliances. Given existing pressures on our capital programme and our limitations on increasing debt charges we were reliant on a successful bid to enable us to push ahead with this exciting project.

What Devon and Somerset FRA is seeking: *We ask that our application for capital funds against the capital bidding process to be reviewed to enable us to push ahead with our innovative plans to roll out 70 LRP's over the next four years.*

4) We welcome the capital grant allocation of £1.4m in 2013-14 and 2014-15 which is distributed to all FRAs based upon population. However we do not believe that the current model used to distribute the total grant available, by way of population, is a fair system as it does not reflect the real capital investment needs of FRAs. For instance, under the current distribution methodology Tyne and Wear FRA attracts a grant of £1.1m and yet it only has 17 fire stations (£64k per station), compared to the £1.4m grant of Devon and Somerset with 85 stations (£15k per station). Similarly, Hampshire and Essex FRAs receive more grant than Devon and Somerset and yet those FRAs have 40% less fire stations to maintain and eventually replace. As an FRA whose number of fire stations and appliances are only second to London Fire (£4.9m grant), our capital investment pressures are significantly bigger than other FRAs and we feel that the distribution model should reflect this.

What Devon and Somerset FRA is seeking: *We would like to see the distribution model changed to a much fairer system which takes into account the number of fire stations and appliances, rather than an arbitrary population method which does not adequately reflect capital investment needs.*

5) Given the relatively small cash amount increases in council tax for fire and rescue services, we have recently been lobbying Devon and Somerset MP's to support a change in the rules associated with the need to hold a local referendum to increase council tax above a set percentage, to a system which would replace a set percentage with a cash amount. As I am sure you will be aware the costs associated with holding a referendum for any fire and rescue service would make such a proposal uneconomic to implement. Given that we are a merged authority (the only voluntary merger) we in Devon and Somerset have fifteen billing and unitary authorities to liaise with in our area, which means that the costs associated with holding a referendum, both administration and potential rebilling costs, would be absolutely disproportionate to the amount that could be raised in council tax and would not therefore represent good value for money to taxpayers.

   We notice that the Minister is sympathetic to this approach in so much as he has allowed some fire and rescue services to set a council tax increase up to £5, however disappointingly this does not apply to us as we are not in the lower quartile of Band D council tax. Surely all fire and rescue authorities should be able to benefit from this new approach rather than applying a very blunt instrument to decide on eligibility.

   <u>What Devon and Somerset FRA is seeking:</u> *We would like the trigger for holding council tax referendums for all fire and rescue services to be measured by a set cash amount rather than the current system of measuring against a set percentage. If the Minister is not minded to apply the £5 limit to all fire and rescue services then a tapered approach could be applied based upon cash limits.*

SUMMARY
This Authority welcomes the opportunity to provide its views on the proposed methodology used to distribute fire formula grant and capital grants, and asks that the representations made in this letter are given serious consideration by your department.

Your department will be well aware of the innovation that has been demonstrated within Devon and Somerset to date, including the only fire service to have merged in recent years, the creation of a commercial arms-length company to increase income generation, the transformational approach to change and improvement, and the introduction of LRP's over the next four years. We are very proud of the innovative approach that is being applied within the Service and feel disappointed that none of this work is being rewarded within grant settlements. We would at least expect a more equitable approach to grant distribution.

If the Minister is not minded to re-assess the grant distribution, both revenue and capital, for 2013-14, we would ask for explanations as to why we have suffered so badly particularly when a sparsity factor is now included which should have given us a fairer settlement. We would like to hear how the fire formula funding reflects the costs of delivering a fire service twice the size of Norfolk, the Fire Ministers own fire Service.

Yours faithfully
Kevin Woodward
Treasurer to Devon and Somerset Fire and Rescue Authority